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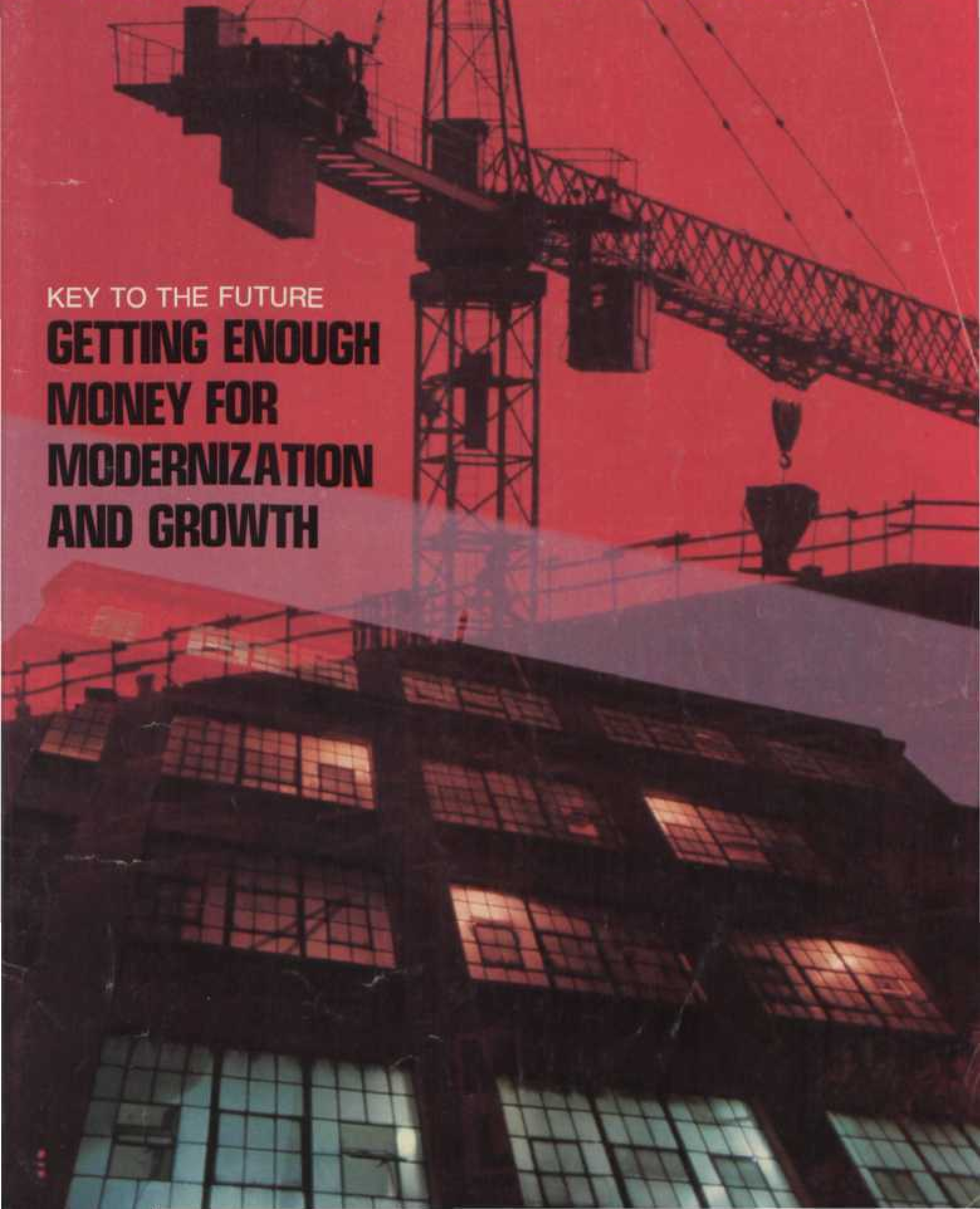
DECEMBER 1975

Nation's Business

KEY TO THE FUTURE

GETTING ENOUGH MONEY FOR MODERNIZATION AND GROWTH



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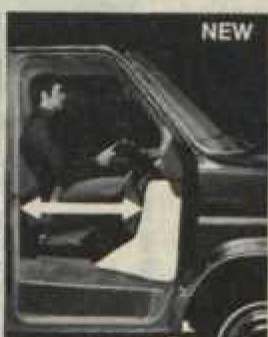


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Nation's Business

VOLUME 63 • NUMBER 12 • DECEMBER 1975

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How to Find Money for Your Business

MUCH OF THE FOCUS during times of economic sluggishness centers on the rate of unemployment—and rightly so. We should have a climate where jobs are available for all who seek them.

But it is a curious fact that there is less emphasis on where these jobs are going to come from. A place to work just doesn't materialize out of rhetoric or hope. A business has to find a demand for its services or products, and it must construct the buildings and buy the equipment so it can compete in the marketplace.

American industry's ability to raise capital has not kept pace with the nation's need to expand its economy and, thereby, provide jobs. In "Key to the Future—Getting Enough Money for Modernization and Growth" (page 16), Reginald H. Jones, chairman of General Electric Co., gives a thoughtful appraisal of what industry needs and why.

Mr. Jones, interviewed by NATION'S BUSINESS, says the nation must come up with $4.5 trillion of private investment capital during the next decade if the economy is to grow satisfactorily.

This is a large figure. But the goal can be met, Mr. Jones believes, if government can provide reasonable policies that will promote capital formation.

Dampening inflation is one important step that can be taken to create a better economic climate, Mr. Jones believes.

"The federal budget for fiscal 1976 calls for spending a billion dollars a day—and borrowing more than a billion dollars a week," he says, emphasizing the need for restraint. That kind of deficit financing promotes inflation and reduces the ability of business to find the cash it needs to create jobs.

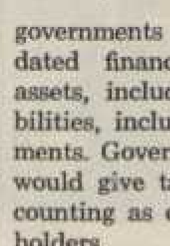
It is important to keep in mind that Reg Jones, though he is head of a large company, has ideas and suggestions regarding capital formation that apply to all kinds and sizes of business, especially the hard-pressed small businesses of the country.

You'll want especially to see what his ideas are concerning policy changes that can ease the financial pressures on business.

• • •

Another businessman with ideas that will interest you is Harvey Kapnick, chairman of Arthur Andersen & Co., the big accounting firm.

Mr. Kapnick thinks taxpayers should not be kept in the dark about trends in government which are leading to fiscal disaster. His company is proposing that governments—federal, state, and local—adopt business accounting techniques.



Mr. Kapnick

As described in our article, "How to Spot Future Fiscal Crises in Government" (page 32), governments would issue consolidated financial statements listing assets, including revenues, and liabilities, including spending commitments. Governments, in other words, would give taxpayers as full an accounting as corporations give stockholders.

• • •

A timely article about Washington legislation tells you "Why Many Business Secrets Are Now in Danger" (page 28). You may have thought the Freedom of Information Act was something that just applies to the news media. Not so. Under it, you can demand—and get—all sorts of information the government has collected, even about your competitors. But your competitors can find out about you, too.

BY JOHN COSTELLO
Associate Editor

How to Identify an Entrepreneur

Successful entrepreneurs come in many shapes and sizes. But all have a need to achieve. Their actions "are directed toward satisfying this need."

This description comes from a chapter in the "Management Development and Training Handbook," in which experts from ten countries discuss the latest state of the art of management theory and practice. The chapter's author: Gerald F. Smyth, Irish Management Institute.

You can tell a successful entrepreneur, Mr. Smyth says, by these characteristics:

- He actively seeks out opportunities to do new things.
- He can state his objectives in amounts that can be measured.
- He takes moderate risks.
- He does the homework needed to find new opportunities and to reduce the risks that seizing them entails.
- He takes personal responsibility for getting results.

The entrepreneur plays a great role in our society, says Mr. Smyth, who is executive director of programs for smaller business at his institute. Without the entrepreneur, our economic system could not answer the myriad demands for goods and services that corporate giants cannot efficiently supply.

"A review of the size structures of firms throughout the world," Mr. Smyth says, "shows that about 90 percent . . . have fewer than 100 employees. This is true of the United States and the EEC [European Economic Community]. In countries like Japan, the figure is more than 95 percent."

The 650-page handbook (McGraw Hill Book Co., New York, $25) is designed to give practical help to managers of firms big and small.

To Stay Alive and Healthy

Diet will help you keep fit and frisky, says Dr. Lenore R. Zohman.

But don't overlook exercise.

It's especially important in reducing the risk of coronary disease.

Dr. Zohman has written a pamphlet called, "Beyond Diet . . . Exercise Your Way to Fitness and Heart Health." She writes:

"Not all types of exercise are equally useful for becoming physically fit. Only those exercises which significantly augment the continuous flow of blood through the heart and large skeletal muscles will help cardiovascular fitness."

Weight lifting, skiing, or isometrics don't fall in that class, she says.

Neither does walking—at two miles per hour. But a four-mile-an-hour pace does, says cardiologist Zohman, a consultant to the American Heart Association.

Her pamphlet, listing the kinds of physical activity that reduce the danger of coronary disease, is available from Mazola Corn Oil, Exercise Booklet, Dept. ZNB, Box 307, Coventry, Conn. 06238.

One of the handiest exercise gadgets?

A jump rope.

Extra Rewards for Executives

Apart from pay and bonuses, what benefits go with executive rank and responsibility?

Of companies replying to one survey, 77.7 percent say they provide a

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car for business use. One percent permit personal use of the company's yacht.

Then there are such extra benefits as executive dining rooms (16.5 percent provide them), low-cost loans (12 percent), free legal counsel (nine percent), a personal chauffeur (4.9 percent).

These statistics result from a recent survey that the Amacom division of American Management Associations took of 2,300 U.S. companies.

Here are some other perquisites companies say they most often extend to management:

	Percent
Better-appointed offices	84.4
First-class air travel on business	51.1
Membership in country club, tennis club, health spa, etc.	49.3
Executive washroom	48.7
Liberal expense account	33.6

However, Amacom says, these benefits may not be as common as the statistics indicate. Only companies that extend them, it says, were most likely to respond to the survey.

Two out of three didn't reply.

"Corporate officers and chief executives are typically the predominant recipients of perquisites," Amacom says. But almost all benefits, to some extent, trickle down at least to middle managers.

Is Profit a Dirty Word?

Nothing obscene about profit, says one businessman.

In fact, he adds, the proper description is skimpy.

"One of the fallacies which has been most damaging to our nation's economy," says Martin Stone, chairman, Monogram Industries, Inc., Santa Monica, Calif., "is that corporations' profits have been climbing outrageously."

If you factor in inflation, he adds, real profits of nonfinancial corporations have dropped 20 percent in the last decade.

Also, he points out, profits shrank from 13.3 percent of national income in 1966 to 9.2 percent in 1974. In the same period, employee compensation rose from 70.2 percent of national income to 75.1 percent.

Looking at return on investment, the results are even more dismal.

After adjusting for inflation, the California executive says, corporate return on investment declined from ten percent in 1966 to approximately five percent in 1974.

Critics who damn profit as a dirty, six-letter word, he says, do the nation a disservice.

Why?

Because shrinking profits mean a shortage of investment capital that produces jobs.

How to Make Your Banker Your Friend

Business is bad, and you need a 90-day loan.

Where do you turn for help?

"Chances are, to a banker," says Willis W. Alexander, executive vice president, American Bankers Association.

"And the odds of getting help are a lot better if you and he aren't total strangers."

Here are Mr. Alexander's tips on how to be buddy-buddy with a banker.

- Select your banker carefully.

"Be sure," Mr. Alexander says, "that he's a person you can warm up to. Someone who will sit down with you and try to understand the ins and outs of running your business."

- Get to know your banker better.

"Discuss your problems with him—and your plans," Mr. Alexander says. "If he's lending you money, he wants you to do well. He has an investment to protect."

- Don't surprise him.

"Most businesses, large or small," Mr. Alexander says, "sometimes run into crises. If you see one coming, tip off your banker. With a little warning, many a crunch can be avoided."

- Stick with the banker you pick.

"Don't switch banks for a quarter of a point on a loan," Mr. Alexander says. "Why risk a close relationship for a few bucks?"

When you're in a bind, he adds, you'll be glad you're some banker's steady customer.

BY JAMES J. KILPATRICK

Echoes of American Troubles Across the Sea

LONDON — An American who visits the British Isles this month, and especially an American southerner, will hear echoes of his own experience. In London, the papers are filled with the same arguments over federalism that once engaged Madison and Henry. In Scotland, one finds secessionists in the spirit of Ft. Sumter. In Ireland, it is black and white in collision; only the names have been changed.

Over mugs of Harp or Guiness, a visitor sees these things through a pub glass, dimly. In Galway, Dublin, Belfast, Glasgow, Edinburgh, Manchester, London, the amber glasses come and go. New ale and old issues! The pub talk turns on the nature of man and the role of the state. There is nothing novel to be heard of the nature of man: His nature gets no better. One listens to talk of the role of the state: It is the Athenian stoa in Gilhooley's Bar. From Rome to Runnymede to the Red Rose Tavern, the more things change, the more they stay the same.

Consider the situation that absorbs the Emerald Isle. In the six counties of Ulster, Protestants make up 70 percent of the population, Catholics 30 percent. They are good Christians, all of them; they will kill each other to prove it. The evidence is 1,350 dead in the past six years.

Alabama's population is about 26 percent black, South Carolina's 30 percent, Mississippi's 36 percent. The parallel between southern blacks and Ulster Catholics can be pushed too far—the issues in Northern Ireland are too complex for so simple an equation—but the parallel is striking, all the same. Race prejudice and religious prejudice are ugly cousins; they share an ancient lineage. In Irish brogue or southern drawl, the talk is the same talk, the fears are the same fears, the charges and defenses are eerily alike. Through the glass of Mr. Gilhooley, one sees the Dixie of 15 years ago.

Who can blame the Ulster Catholics for rising up? They have known segregation in housing, in schools, in employment, in political life. More than 50 years have passed since southern Ireland went for independence and Northern Ireland stayed with Britain, but no Catholic ever has held a ministerial seat in an Ulster government. Twelve thousand persons are employed in the great shipyards of Belfast; only 400, a visiting newsman is told, are Catholics. The discrimination is not even subtle; it is pervasive.

But who can blame the Ulster Protestants for holding fast? These are their neighborhoods, their factories, their jobs, and their children raised in their religion. This is a poor land, poorer than Alabama, poorer than South Carolina, and there were never jobs enough to go around before the trouble started up again. It is not as if the Catholics were denied a right to vote; of course they vote; they held seats in the old Stormont and they had 20 of the 78 seats in the recent constitutional convention—just about their proper share, if numbers alone are all that matter —and there's something to be said for majority rule. They've got their own good schools, their own neighborhoods, their own church, and a law forbidding discrimination in employment. Protestants ask: What more do they want? Will nothing ever satisfy them?

The white southerner has heard all of this before. The southerner has seen the same patterns of political leadership evolve. Fifteen or 20 years ago, most of the white South rallied behind leaders who wore "Never!" in their coat lapels; it was an insult, in those days, to call a man a moderate. In today's Ulster, most Protestants rally behind the United Ulster Unionist Coalition; the hated word is compromiser. To be tagged a compromiser is to invite ostracism and expulsion. That was the fate imposed in October on Bill Craig, leader of the Vanguard faction within the UUUC, who voiced his willingness to see Catholics given high places in a new government. The party promptly expelled him.

The view from Mr. Gilhooley's glass, if one looks to the future, is obscure. Parallels evaporate. The American South went through its spasms of violence, but these pale against the bloody convulsions of Ulster. As the years passed, tensions in the South tended to ease, bitterness subsided, and efforts toward accommodation gained support. By contrast, every bomb in Belfast heightens the tension and deepens the bitterness. There are other differences. The occupation of Little Rock cannot be compared with the occupation of Northern Ireland. The British troops are heartily sick of their despised assignment, and the British government is as heartily sick of the wasting cost. The old Irish dream of reunification grows more remote; no one imagines that Ulster's Protestant majority would vote itself a minority position in a united Ireland. It is too much to ask. So the fight goes on.

England, Scotland, and Wales are more concerned these days with the structure and role of government. The talk is of devolution—the transfer of substantive powers by Parliament to the separate regions.

It is hard for the American visitor

to know how much to make of the row about devolution. Over most of Europe—over most of the world, for that matter—minorities are crying out for independence, home rule, or an end to colonialism. Ideologically speaking, the Scottish Nationalists are thus fashionably attired. They evoke the just appeal of the orphan child complaining of neglect, and some of their complaint appears well-founded. Some of the more militant nationalists are calling for outright secession. They would like to go it alone.

Thus far, at least, there is not much passion in the protest. One suspects there is more of petroleum than of principle in the outcry from Edinburgh and Glasgow. Until oil was discovered off the coast, few persons imagined that Scotland could support itself. Now, the Scottish Nationalists have papered the cities with posters of a sad-eyed child: "It's HIS Oil," the posters proclaim. And why, therefore, should the education of Scottish children be neglected?

In London, the reaction smacks more of politics than of statecraft. The Labor Party last year committed itself, unequivocally, to the principle of devolution. So did the Conservatives, though in different degrees as to Scotland and Wales. The commitments evidently were made with little serious thought of the consequences. Suddenly, the possibility looms that devolution could mean dissolution; it could mean the breakup of the United Kingdom, or it could mean an entirely new structure in the style of American federalism.

Discomfitted Labor leaders are like Hamlet's "enginer, hoist with his own petar." They cannot renege on their promise without giving an enormous boost to the Scottish Nationalists; they cannot fulfill their promise, assuming the votes could be mustered, without grave damage to the whole British structure. Labor leaders will therefore stall, as best they can, through the hoary devices of study commissions and parliamentary delays, while the gleeful nationalists snap at their laggard heels.

The Labor Party made another commitment during the last campaign: to phase out the private beds that still exist in National Health Service hospitals. On this issue, principle is indeed involved—on both sides. There are not many such beds: only 4,187 out of roughly half a million. Even so, they have become, to the doctrinaire egalitarians of Harold Wilson's party, a hated symbol of special privilege. As a matter of principle, Labor leaders insist that the last vestiges of private practice must be obliterated in the NHS institutions. Though a royal study commission is about to make an inquiry into health services generally, the phaseout will be off limits.

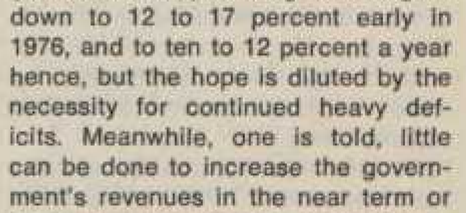
The British Medical Association is standing on principle also. When the National Health Service first was established, the then Minister of Health, Aneurin Bevan, pledged that opportunities for private practice would be retained within the NHS. Relying upon this pledge, subsequently renewed by other governments, about half of the 11,500 surgeons and other specialists have elected to participate as NHS staff members under an arrangement that permits them part-time private practice. The BMA views Labor's insistence on the phaseout as a breach of faith.

The BMA also fears, with abundant reason, that private practice will be effectively done for if the NHS connection is abolished. Over a great part of the British Isles, the NHS hospitals are almost the only hospitals. In the whole of Wales, for example, only 55 private beds exist. East Anglia has but 156, Yorkshire only 387. Mrs. Barbara Castle, the Social Services Secretary, has made her intention clear to see that private hospital construction will be tightly limited after the phaseout by a policy of restrictive licensing. Mrs. Castle and Prime Minister Wilson insist that they do not mean to kill private practice entirely; they mean merely to strangle it within an inch of its life.

To British doctors, the government's attack carries ominous overtones of the totalitarian state. Once medicine has become a public monopoly, they ask, what next? Education? By the same line of reasoning, Britain's private schools also are symbols of special privilege. Are schools also to become state monopolies, protected from competition? What rights and what freedoms will remain in Britain against the swelling power of the state?

Other issues, to be sure, also occupy the customers at Gilhooley's Bar and the Red Rose Tavern. The people are debating, once again, whether the House of Lords should be abolished, whether the royal family is overpaid, and whether inflation can be first contained and then reduced. The impact of inflation is much crueler here than in the States. Though third-quarter figures looked encouraging, inflation still is running at an annual rate of 26 percent. The government hopes to get the figure down to 12 to 17 percent early in 1976, and to ten to 12 percent a year hence, but the hope is diluted by the necessity for continued heavy deficits. Meanwhile, one is told, little can be done to increase the government's revenues in the near term or to cut the government's expenditures. The policy, said a high Treasury official, is "to borrow our way out of the recession."

High prices and terrorist threats have combined to discourage tourists, but the pubs still do a roaring business with the home folks. Patriotic to the last swallow, Irish, Scots, and Londoners seem determined to drink the British Isles out of the recession. The policy may not improve either man or the state, but it eases the gathering dark.



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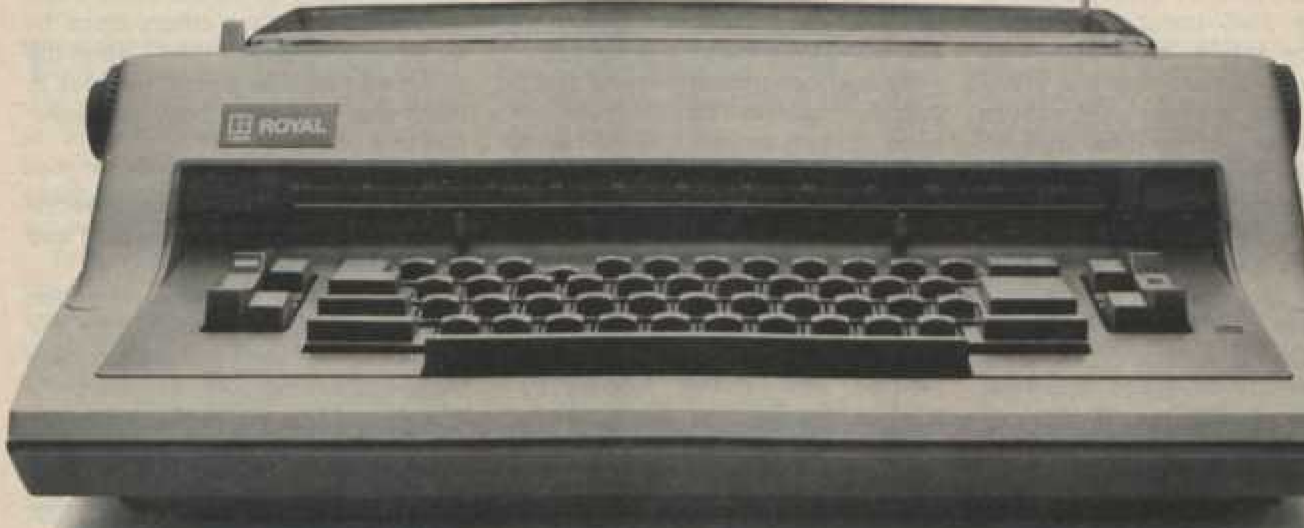

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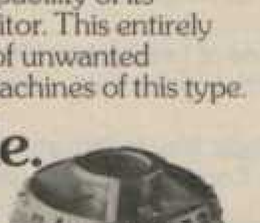

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With major bankruptcies so much in the news, how many companies and individuals have been going bankrupt?

A total of 254,484 businesses and individuals filed under the federal Bankruptcy Act in fiscal 1975. This was 34 percent more than the previous year. The number of business failures alone was up more than 45 percent over the previous year.

Dollarwise, five of the ten largest bankruptcies in U.S. history occurred in the past 14 months. The bankrupt firms include W.T. Grant Co., $1.03 billion in liabilities; Investors Funding Corp. of New York, $379 million; Fidelity Mortgage Investors, $187 million; Daylin, Inc., $155.2 million; and Chicago, Rock Island & Pacific Railroad Co., $97.8 million.

Congress is considering several bills which propose sweeping changes in personal and commercial bankruptcy proceedings. The federal bankruptcy law has been on the books since 1898.

Is it true some congressmen are not accepting their recent pay raises?

By law, congressmen must accept their full salaries. But they are permitted to turn around and send some or all of the money back to the U.S. Treasury. A few members are rebating their raises, but the idea is not likely to catch fire. Their pay was boosted from $42,500 to $44,625.

One member is using the money to let his constituents phone him toll-free. Rep. Robert Cornell (D.-Wis.) is forgoing his salary hike for another reason. He is a Catholic priest and, because of a poverty vow, he does not keep any money above living expenses. The rest of his salary goes to the Cornell Congressional Intern Program and a scholarship fund.

Rep. Charles Bennett (D.-Fla.) is forgoing the raise on the same basis that he has forgone others since he came to Congress in 1949—when the salary was $10,000 a year. He goes to the higher pay level only after election to a new term.

Where did the Republican and Democratic parties get their elephant and donkey symbols?

Thomas Nast, the great American illustrator and caricaturist, gets the credit. He first used the donkey as a Democratic symbol in Harper's Weekly on Jan. 15, 1870, and began using an elephant for the Republicans four years later in the same publication. In time, the two parties accepted the Nast selections.

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An Amendment to Require Balanced Budgets?

Ten years ago, Congress was voting for tax cuts and talking about stiff restraints to slow the increase in federal spending. The national budget stood at $130 billion. The national debt was $317 billion, and interest on it was $10 billion.

Today, sentiment is building in Congress for more tax cuts, and members are talking about stiff restraints to slow the increase in federal spending. The budget is moving past the $370 billion level. The national debt is approaching $600 billion, and interest on it is $35 billion this year.

That fiscal record has prompted some 20 senators to propose a drastic step: adoption of a constitutional amendment requiring that federal budgets be balanced, except during periods of national emergency declared by Congress.

Congress would be forced to lower expenditures to the level of anticipated revenues or to raise taxes to cover higher spending. The lawmakers would no longer be able to use inflation-causing deficit spending to bridge the gap between income and outgo.

Such an amendment, says Sen. Herman E. Talmadge (D.-Ga.), one of the sponsors, "would impose a strict discipline on the Congress of the United States to stop spending the nation into chaos."

Legislation to gain congressional approval for the proposal has been referred to the Senate Judiciary Committee's constitutional amendments subcommittee.

Opponents are anticipating that the measure will simply be allowed to die quietly in the subcommittee, unless there is great public demand for its passage.

Those against setting a constitutional requirement for a balanced budget generally argue that the restriction would make it difficult for the government to respond quickly to economic downturns by launching spending programs.

Should we amend the Constitution to require balanced federal budgets? What do you think?

PLEASE CLIP THIS FORM FOR YOUR REPLY

Kenneth W. Medley, Editor
Nation's Business
1615 H Street N.W.
Washington, D.C. 20062

Amend the Constitution to require balanced federal budgets? ☐ Yes ☐ No

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A Resounding No for Free Mail to Congressmen

"There's no free lunch" is a comment frequently echoed in responses to October's "Sound Off to the Editor" question. By a margin of more than seven to one, *Nation's Business* readers answer no to: "Should you be able to write to your congressmen free?"

Many agree with Dennis R. Ker, territory representative, Michelin Tire Corp., Denver: "There is no such thing as free. I either pay for the postage at the post office or on April 15, when I pay the salaries of my congressman's staff and the post-

The taxpayer would ultimately pay the cost of free letters, says Dolores Manley, vice president, Republic Financial Services, Inc., Dallas. She also fears there would be too many mail campaigns.

al workers. I believe it's cheaper for me to put the stamp on—much cheaper."

James B. Harris, marketing representative, Valley Bank and Trust Co., Springfield, Mass., does not believe "that providing free postage would encourage a response from a congressman's constituency significant enough to warrant the increased costs which would be passed back to the taxpayer. Individuals who seek a more responsive form of government will continue to communicate with their elected officials and pay the required postage."

"If what you have to say isn't worth ten cents—that will be 13 cents soon—it isn't worth saying," asserts David L. Ross, a vice president of Northwest Truckstell Sales, Inc., Portland, Oregon.

J. Timothy Bettis, president, Insurance and Investment Advisers, Inc., Indianapolis, says that "those who presently write will continue to do so, whether or not free postage is provided. Those who presently do not write are more concerned about the time involved, composition of the letter, etc., than about the cost of the stamp."

C.D. Maury, labor relations representative, Addison Products Co., Jonesville, Mich., disagrees: "If we were able to write free to our representatives in government, it might not open the door to the silent majority very wide, but it would be a welcome avenue. The more available communication becomes, the more people can be expected to communicate."

Many readers oppose the existing congressional franking privilege, as well as reverse franking.

T. Nelson Gilbert, treasurer, J.J. Haines & Co., Inc., Baltimore, says: "I do not believe constituents should have a franking privilege. Neither do I believe that Congress should have one. The expense budgets of congressmen are more than generous and can absorb these mailing costs. I believe that the office of each congressman should be charged directly for the expense the office incurs."

A.G. Jolly, treasurer, Zimmer-Mc-

David E. Colbert, Jr., administrative manager, Owens/Corning Fiberglas Corp., Huntingdon, Pa., says: "If I can't reply to my congressman's propaganda free, then stop him from using free mail to send it."

Claskey-Lewis, Inc., Louisville, says franking is often equivalent to "free politicking."

Ms. Myrtle Crandall, manager, Ashtabula Business Service, Ashtabula, Ohio, says the franking privilege is "an archaic practice which was instituted when congressmen had very low salaries and served for the honor of their country and the privilege of serving. Everything has changed now except the franking."

Dr. Martin H. Hall, professor of history, The University of Texas at Arlington, Arlington, has a different historical perspective. He votes for free letters to officials because "commu-

Insurance broker Frank R. Philpott, R.W. Card & Associates, Inc., Denver, says: "A person will write an important letter regardless of postage." He also feels congressmen should pay their own mailing costs.

nication with our congressmen is obviously political correspondence. To have to pay postage is, in my opinion, a violation of the right of petition, guaranteed by our Constitution and originally won as a result of the Glorious Revolution of 1688."

In case you have forgotten the "glorious revolution," the professor explains that it was a period of bloodless change in Britain, when Parliament won important concessions from the monarchy.

Some readers come out for limiting, although not ending, congressmen's franking privilege.

B.O. Wilkins, Jr., operations coordinator, Gulf Oil Co.—U.S., Houston, says that the "Postal Service must be made to break even, but not necessarily by higher rates," and adds that there should be a ceiling on franking. For senators, he says, the ceiling should be proportional to the population they represent, and it should be equal for representatives.

Others think congressmen should not be permitted free bulk mailing, just free postage for personal letters in reply to mail from their districts.

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Getting Enough Money for Modernization and Growth

All kinds of companies—big and small—are running short of capital. Here are the views of one businessman on what can be done to encourage economic growth and defeat inflation

AN INTERVIEW WITH REGINALD H. JONES

THE NEED FOR FRESH CAPITAL that will create new jobs is pressing hard on the minds of most businessmen today.

One executive who fears the country is headed for a new financial crisis is Reginald H. Jones, chairman of General Electric Co. He has been speaking out forcefully on the need to return to the basic principles of savings and investment—something he views as vital to dampen inflation, increase the nation's productivity, and create millions of jobs.

In the question-and-answer exchange which follows, NATION'S BUSINESS asked Mr. Jones to explain his reasons for believing the U.S. is facing a capital shortage and especially sought his views on what can be done to solve the problem of the capital-short economy.

Mr. Jones, as business emerges from recession, it is going to be called on to provide a great many jobs for the rehiring of people who were laid off and to provide employment for the growing labor force. Can that be done?

It will be a touch-and-go situation. Most companies, General Electric included, will put the unemployed back to work just as quickly as possible. But creating all the brand-new jobs that the U.S. is going to need in years ahead will be harder to accomplish. It may be impossible—unless we find ways to generate more capital.

What is the problem?

It centers on the ability of companies to raise money to expand and modernize and keep a jump ahead of competition. The economists refer to this process as capital formation. A country's economy grows and flourishes when people set aside a part of what they earn to invest in facilities and technology that will make the nation still more productive.

A generation ago, the U.S. led the world in capital investment, and we pulled out ahead in terms of production and national wealth.

But that's no longer the case. Since World War II, we have been emphasizing the good life—high consumption and expansion of government services—at the expense of savings and investment. We've been building up demand and ignoring the supply side, the producer sector. We've lost touch with a basic formula for success.

Does this spell trouble for our whole business system?

Yes, it's something that worries me greatly. I suspect it worries a lot of businessmen—people who run all sizes and kinds of business, especially the hard-pressed small businessmen.

PHOTOS: CHARLES MOORE—BLACK STAR

"For 1976, we need a tax bill that gives some of the money back to the people."

"We are simply trying to impress on Congress and the American people the need to abandon the old soak-business theory of taxation that has been eating away the foundations of our economy."

"It worries a lot of businessmen . . . especially the hard-pressed small businessmen."

We have developed imbalances in our economy that, if continued, can put us on a long downhill slide to disaster. To speak bluntly, if Americans get fed up enough with inflation, unemployment, and declining standards of living, they may lose faith in our free enterprise system and turn to something else—probably a form of government-controlled economy.

Is this tied to the problems of inflation and recession the country has been struggling with?

Yes, definitely. Let me explain why.

The American economy, like all Gaul of our high school Latin lessons, is divided into three unequal parts. First, there's the government segment, where spending has been growing faster than the economy that supports it. The federal budget for fiscal 1976 calls for spending a billion dollars a day—and borrowing more than a billion dollars a week. Meanwhile, we are continuing to expand the public payroll and transfer still more billions from producers to nonproducers.

It is this sort of spending that generated much of our current inflation and, parenthetically, the sort of path that has led England to the brink of national bankruptcy. I visited England again last August, and really, it's depressing. I'm from England, you know.

And the other two segments—

One is the consumer portion, which has grown mightily in recent decades. Real disposable income—the money people have left to spend after subtracting taxes and price increases—rose solidly through the 1960's. But then inflation started eating away the gains and, since early 1974, real disposable income has been going down even though take-home pay has been rising. That has been damaging to consumer con-

fidence. People stopped buying postponables, factories cut back on the production of unwanted goods, and layoffs shot upward. This in turn depressed capital spending by business.

The other major sector of the economy is the producer segment. It is this area, made up of companies large and small that turn out goods and services, that supports both the government and consumer portions. When it falters, we're in deep trouble. And this is the very segment that has been starving and shrinking for lack of capital to modernize and expand. That can't go on much longer if we are to hold our place in the world.

"A country's economy grows and flourishes when people set aside a part of what they earn to invest in facilities and technology that will make the nation more productive."

Other countries have forged ahead of us in capital investment?

Yes. In the past 15 years, we have been reinvesting only about 15 percent to 18 percent of our total output—the gross national product—each year. That's the worst record of any industrialized country in the free world. In Germany and France, such investment has been running about 25 percent annually. In Japan, it has ranged up to 37 percent. No wonder their output has been rising faster than ours. They're taking business and jobs away from us.

Is there a direct link between low capital investment and sluggish economic growth?

Quite clearly yes. Figures from the Organization for Economic Cooperation and Development show that, during the decade of the 1960's, the average annual rate of real growth, after allowance for inflation, ranged from a high of more than 11 percent in Japan down to a low of just under three percent for the United Kingdom. The U.S. over this same period had an average growth rate of four percent a year, pushing us down to 17th place on the list of 20 countries.

So we've got to move faster to replace outmoded machinery, equipment, and plants—

Yes—and at prices that are sharply higher than a decade ago. It now takes something like $25,000 to $30,000 per person to provide the tools a worker needs in modern industry. The problem isn't simply to update the facilities already in existence. We've got to meet enormous new capital requirements that are piling up all the time.

Take the demands for increasing our supplies of energy. We're going to need to raise as much as $1 trillion between now and 1985 for energy alone. Beyond that, we will need additional hundreds of billions for controlling pollution, for new transportation systems, for rebuilding some of our basic industries where supply bottlenecks are sure to appear as business picks up.

Secretary of the Treasury Simon told Congress recently that in coming years we will have to devote about three times as much money to capital investment as we have in the recent past. I'm in agreement with his view that reaching this goal represents one of the most formidable challenges this country faces in years just ahead.

What is your estimate of total needs in the next decade?

Our economists at General Electric have come up with a figure of $4.5 trillion of private investment.

Just for the years 1977 through 1980, they see the need for more than $300 billion a year by nonfinancial corporations—compared with the $210 billion spent last year—for plant, equipment, and additions to inventory. These estimates tally pretty closely with similar projections made by the U.S. Department of Commerce. Both are limited to private investment.

They exclude additional huge government expenditures that will be required for roads, dams, schools, community pollution abatement, and many other projects.

Where are companies going to get all the new capital that will be needed?

There are four sources business can turn to. One—and by far the most important source—is depreciation. The tax laws permit business, as part of operating costs, to set aside each year a certain amount to help take care of the expense of replacing worn-out tools, machinery, and plant. Lately, because of rising prices, this has fallen drastically short of overall needs. Last year, for example, depreciation allowances were some $23 billion less than the inflated costs of replacing outmoded facilities. The problem keeps getting worse as costs of equipment and new construction keep escalating.

You said the law permits tax-free recovery of part of such costs—

Yes, the Treasury has a set of rules known as depreciation guidelines which specify the estimated useful lives of a whole range of assets. In 1954, the tax code was changed to permit depreciation charges to be made on an accelerated basis. Then, in 1962, and again in 1971, the rules were liberalized somewhat. Even so, American businesses have a keen competitive disadvantage in comparison with other industrialized nations. While companies in this country, on average, can recover roughly 60 percent of the cost of assets in the first three years, competitors in Canada and the United Kingdom can recover 100 percent, in Italy 68 percent, in France 67 percent, and in Japan 64 percent.

So, one thing we need to do, and as soon as possible, is to speed up the rate of capital recovery in recog-

nition of the true replacement costs.

Is there resistance to this?

Yes, by people who don't appreciate the problem. You can get some idea of the magnitude of this problem when you realize that even today's rates of recovery, which trail those of our foreign competitors, are criticized as tax loopholes.

Depreciation is supposed to make possible the replacement of existing capacity, but the money for supporting new technology and for expanding capacity must come from three other directions—from reinvesting profits in the business, or raising new cash in the stock market, or going into debt. And business is in trouble on all three counts.

Why?

Well, let's look at profits as a source of capital. Most businessmen know that profits have been on a downhill course because of the impact of inflation. To quote Treasury Secretary Simon once more, "It is not unfair to say that we are in a profits depression in this country." If you sift out what might be termed the phantom elements in our current profits picture—overvalued inventories, lack of adequate depreciation—you find that industry's real retained earnings fell from $20 billion in 1965 to $6 billion in 1973. And for 1974, there was an actual negative figure of $10 billion for retained earnings.

In other words, there weren't nearly enough profits generated by U.S. industry to replace existing capacity, let alone invest in new job-generating facilities.

What about raising money from stock or from bonds?

As you probably are well aware, there have been serious problems in both those areas lately. With the stock market under pressure and real return on investment limited, people have been very reluctant to invest in new shares. In 1974, for example, new issues of stock provided less than two percent of all new capital raised by business.

Now, there have been signs of more optimism among investors in the stock market, and perhaps as the year goes on we will see some increase in stock issues. Even so, they will provide only a fraction of the capital business will need.

As to borrowing, business has been going deeper and deeper into debt in recent years, because that has been about the only way left to raise money. If you go back to 1960, you'll find that new debt amounted to about one quarter of all the capital raised. By 1974, that had moved up to well above half. As a result, business today owes two dollars for every dollar of net worth. That's what I call a precarious situation. Many companies find they can't ride out temporary setbacks, and the number of bankruptcies is rising.

Some industries, especially those that need large amounts of capital, such as the electric utilities and the railroads, are now in serious financial trouble.

"Many companies find they can't ride out temporary setbacks, and the number of bankruptcies is rising."

What should be done about all of this?

I think it's clear that as a matter of national policy we need to give top priority to the stimulation of capital formation in every practical way that's open to us. That includes maintaining a sufficiently expansive monetary policy, to improve business liquidity; greater control over government spending, so that we can have a balanced budget in times of prosperity, not an uninterrupted string of deficits in good years and bad; and a change in tax policies to encourage savings and investment and improve industry's cash flow.

What specifically would you like to see in the way of tax changes for business?

I strongly support a package of tax proposals that stimulate business rather than stifle business growth. What we need is some politically feasible combination of these approaches:

• I have already mentioned the need for an improved capital recovery system for business—depreciation rates that more nearly match replacement costs rather than historic costs.

• We need a permanent 12 percent investment tax credit for all industry, including utilities. The quickie tax bill passed by Congress included a ten percent investment tax credit for this year and next. But most members of the House Ways and Means Committee realize it needs to be made permanent in a tax reform bill because the planning of new factories is a long-range thing, not a process that responds to off-again, on-again incentives.

• We should at least make a start on eliminating the double taxation on corporate profits. These profits are now taxed twice—once at the corporate level and again when they are paid out to stockholders as dividends.

Some European countries have found ways to reduce the pernicious effects of such double taxation, and we should try to do the same in the United States.

• The tax rate on corporations should be trimmed back, perhaps to

Getting Enough Money for Modernization and Growth *continued*

42 percent from the present level of 48 percent. This is vital, because business must be allowed to keep and reinvest more of its earnings. It must be able to show better after-tax profits in order to raise money from new issues of stock.

• Taxes on capital gains should be reduced. Such gains represent a reward for risk investment and are essential for growth. They also represent savings which are essential for capital formation. I favor a graduated tax on capital gains which varies with the length of time an asset has been owned.

• We need to assure fair treatment in the taxation of income earned by U.S. companies on their operations abroad. Some modern-day isolationists are trying to make it impossible for American companies to operate in other countries by imposing unreasonable taxes on the income from their foreign investments. They are demanding the elimination of what they call loopholes—the foreign tax credit, which simply avoids taxing the same income twice; the deferral of taxes until foreign income actually reaches the United States; the DISC provisions to place U.S. exporters more nearly on a par with European competitors; and the incentives to invest in less-developed countries.

All of these are not loopholes, but simply ways to keep American companies competitive in the struggle for world markets.

Should all the tax cuts go to business? How about individuals?

The federal government got an unlegislated tax increase when double-digit inflation boosted individual families and businesses into higher tax brackets without any increase in real purchasing power. So, for 1976, we need a tax bill that gives some of the money back to the people—a combination tax cut for individuals and business. But, longer term, I see business capital formation as the real issue.

Do you think Congress will recognize the problem?

Realistically, we can't get all these tax changes at once. But I think you get the idea—we are simply trying to impress on Congress and the American people the need to abandon the old soak-business theory of taxation that has been eating away the foundations of our economy. With proper tax reform, we can increase this country's productivity, prevent runaway inflation, provide jobs for a growing work force, ultimately assure greater energy independence, and resume the long-term advance in this country's standard of living.

"Business has been going deeper and deeper into debt in recent years, because that has been about the only way left to raise money."

Do you think people around the country will understand the need for such action?

I'm counting on that. People may not understand all the technicalities. But I hope we can make clear the consequences of action or inaction on this issue that is becoming more critical day by day.

And it must be understood that this affects all business, not just big business, not just small business. We're all in the same boat. The country needs the jobs that can be created by better understanding of what it takes to make our economic system work better. END

REPRINTS *of this article are available from Nation's Business. See page 12 for details.*

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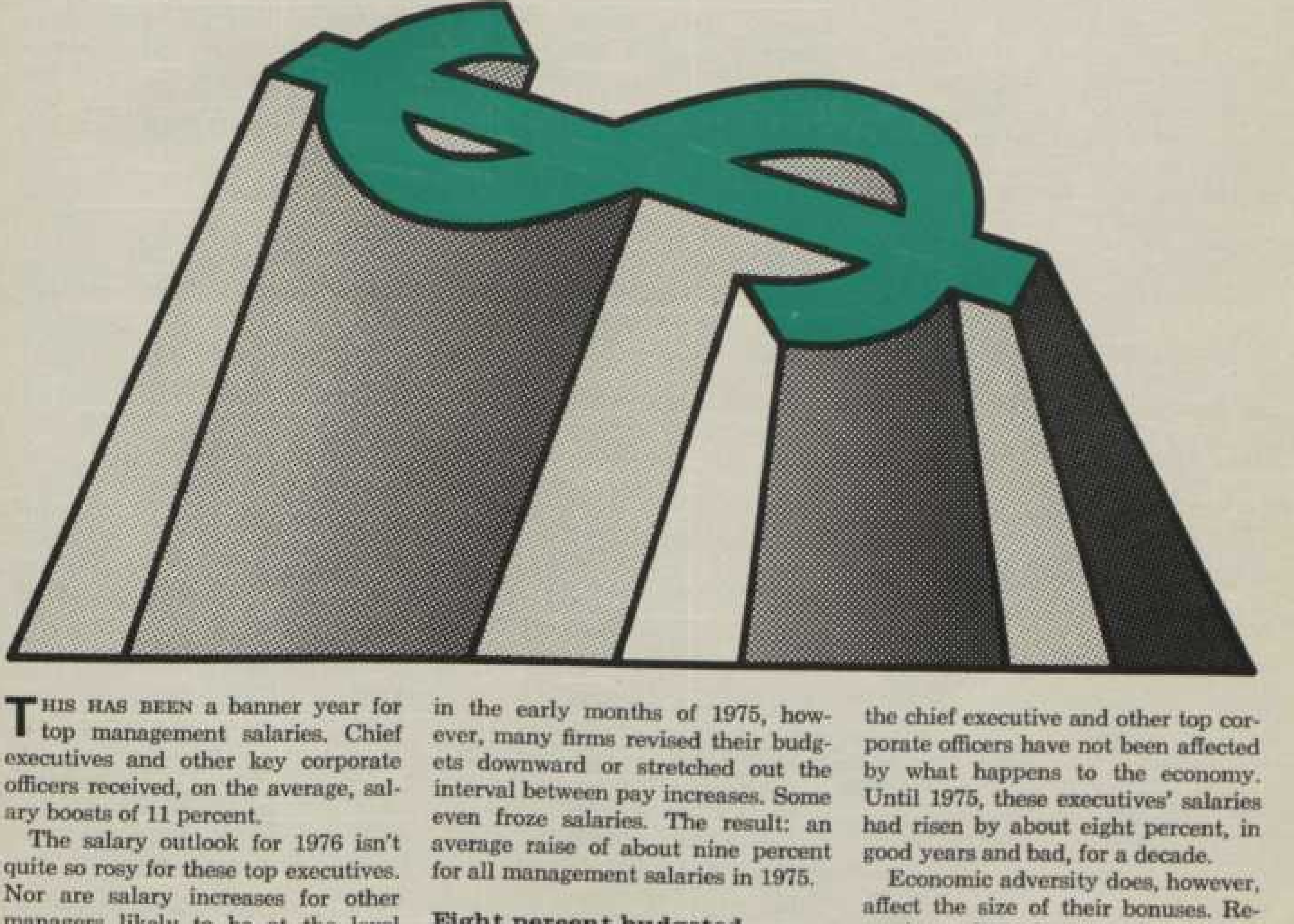
The Outlook for Executive Pay

BY ROBERT E. SIBSON

Companies are cautious about how much to increase executives' compensation next year, an authoritative survey shows. This article discusses trends in salaries, bonuses, and other rewards



THIS HAS BEEN a banner year for top management salaries. Chief executives and other key corporate officers received, on the average, salary boosts of 11 percent.

The salary outlook for 1976 isn't quite so rosy for these top executives. Nor are salary increases for other managers likely to be at the level they have been in 1975.

Next year, companies probably will be somewhat more careful about salary increases, the latest Sibson & Co. management compensation study shows. That policy will apply to management as well as to all other salaried employees.

At this time last year, the average budget for salary hikes was close to 11 percent. As the recession worsened in the early months of 1975, however, many firms revised their budgets downward or stretched out the interval between pay increases. Some even froze salaries. The result: an average raise of about nine percent for all management salaries in 1975.

Eight percent budgeted

Today, companies on average are budgeting salary increases of about eight percent for all management in 1976. However, these plans may prove flexible. If business continues to improve, and double-digit inflation returns, many firms will likely revise their salary budgets upward. If so, all salaried employees, including executives, will benefit.

In the past, salary increases for the chief executive and other top corporate officers have not been affected by what happens to the economy. Until 1975, these executives' salaries had risen by about eight percent, in good years and bad, for a decade.

Economic adversity does, however, affect the size of their bonuses. Recessions also affect any values that may have accrued in long-term income plans. Worse still, in a business slump, many executives lose their jobs.

How top executives fared

Why was the average salary increase for top executives in 1975 three percentage points higher than it had been in years past?

True, the economy was not at its

Salaries and Bonuses of Chief Executive Officers of Industrial Companies

Table #1

(Salaries and bonuses in thousands)

Size of company (By sales volume in millions) From	To		*High-paying industries	Medium-paying industries	**Low-paying industries
$1	$5	Salary	$ 49	$ 37	$ 32
		Bonus	16	11	10
		Total	$ 65	$ 48	$ 42
5	15	Salary	$ 64	$ 51	$ 42
		Bonus	23	18	14
		Total	$ 87	$ 69	$ 56
15	25	Salary	$ 78	$ 62	$ 48
		Bonus	29	23	18
		Total	$107	$ 85	$ 66
25	35	Salary	$ 88	$ 74	$ 56
		Bonus	34	29	22
		Total	$122	$103	$ 78
35	50	Salary	$ 92	$ 82	$ 63
		Bonus	36	32	25
		Total	$128	$114	$ 88
50	75	Salary	$101	$ 89	$ 70
		Bonus	41	37	29
		Total	$142	$126	$ 99
75	125	Salary	$117	$100	$ 80
		Bonus	51	44	35
		Total	$168	$144	$115
125	250	Salary	$148	$115	$ 92
		Bonus	64	52	40
		Total	$212	$167	$132
250	500	Salary	$172	$140	$118
		Bonus	81	66	60
		Total	$253	$206	$178
500	1,000	Salary	$220	$190	$161
		Bonus	109	97	77
		Total	$329	$287	$238
1,000	2,000	Salary	$238	$203	$168
		Bonus	133	112	91
		Total	$371	$315	$259
2,000	5,000	Salary	$285	$235	$200
		Bonus	182	150	128
		Total	$467	$385	$328
5,000	10,000	Salary	$325	$261	$232
		Bonus	231	183	158
		Total	$556	$444	$390

NOTE: Salary data are projected to reflect levels as of January, 1976. Bonus levels are projected to reflect year-end bonus awards paid for 1975 performances.

*High-paying industries include cosmetics and toiletries, pharmaceuticals, chemicals, and petroleum.

**Low-paying industries include food and beverages and publishing.

best in 1974 for all industries. But top executives typically are among the earliest to get pay increases. When the increases were set, inflation was the nation's No. 1 concern. Pay policy was influenced by the desire to offset inflation.

Only a few months later, it became clear that recession, not inflation, was the chief immediate threat to our economy. Then, companies began tightening up on all costs—including pay hikes.

However, top executives had already received their increases. In addition, more and more companies are reviewing management salaries annually, rather than every two or three years. More annual reviews mean more managers have the chance of getting a raise in salary.

Growth compounded

Steady increases in top executives' pay have, over the years, produced dramatic changes in salary levels. Take for instance, an executive drawing a salary of $60,000 in 1964, the first year this annual study of executive compensation was made. In 1974, he was receiving a salary of well over $100,000. Next year, his salary will be about $125,000.

If these trends continue, that same executive will be paid a $235,000 salary by 1984. In 20 years, his salary will nearly quadruple.

The executive newly appointed in 1976 at a salary of $125,000 will do even better. He is likely to have a salary of well above $300,000 by 1988—after only a dozen years on the job.

Trends for young managers

Salary trends for younger managers are even more striking. Fast-track managers have had increases which averaged more than 17 percent annually. If this rate continues, the young manager or trainee starting in 1975 at $12,000 a year will, in 15 years, have a salary of more than $125,000. He will still be in his 30's.

Of course, inflation will presumably be stripping the dollar of some value, year after year.

Salary levels for chief executive officers of bonus-paying companies, projected as of January, 1976, are shown in Table #1. Generally speaking, nonbonus-paying companies have somewhat higher salary levels, but somewhat lower total compensation levels. This table presents average salary data related to the size of company. Actual salaries in any size category vary greatly. More than half the salaries in any category are plus or minus one third of the average salaries shown.

Table #1 is a good general guide to salary levels of chief executive officers. It should not be followed slavishly, however, to set the salary of the chief executive officer in any firm.

Factors affecting pay

Over the past few years, compensation experts have done a great deal of useful work on what has become known as multifactor analysis. The objective is to find out, by analytic methods, what factors affect executive salary levels.

The size of firm, the kind of industry, and whether or not a firm has a bonus plan clearly influence the level of the chief executive officer's salary. For labor-intensive industries, the number of employees will affect salary level, and for capital-intensive industries, the amount of assets employed.

Profit levels, age of the executive, or length of time on the job have no significant statistical correlation with the salary level of the chief executive. There may, however, be some instances where spurious correlation exists.

Other salary levels

Salary levels for a cross section of other management positions for bonus-paying industrial companies are shown in Table #2.

Marketing as a direct sales function still pays the highest, followed by finance, manufacturing, and research. When marketing is a corporate function, as in Table #2, the pay level will be below that in finance.

There are, however, important exceptions to this rule. In the pharmaceutical industry, for instance, salaries for managers in research are typically higher than those of other executives shown in Table #2, or very close to the highest.

Executives showing the most rapid increase in salary levels last year are in finance and personnel.

Almost 50 percent of all industrial firms and varying percentages of other types of enterprises now pay some form of bonus to their managers. In typical years, the bonus will range from as little as 15 percent of salary for a job paying $25,000 a year to as much as 60 percent of salary for a chief executive officer of a billion-dollar firm. For executives in multibillion-dollar firms, bonuses can be larger than salaries.

Bonuses and profits

Actual bonus awards will vary based on the company's profit and the individual manager's contribution to that profit. For those whose pay is reported in proxy statements, bonus awards on the average change one and one-half to two percent for each one percent change in profits—up or down.

For many major firms, 1974 was not an unusually profitable year. However, 75 percent of the 500 biggest industrial firms showed a profit increase over 1973. As a result, 1974 bonus payments made in 1975 to top management showed an average increase of approximately 20 percent.

It is interesting to note that some firms whose profits were lower than in 1973 still increased bonus payments. Some other firms, whose profits rose, cut bonuses.

The explanation may lie in the fact that some companies have shown high profits which are really only inventory profits. Other companies, of course, showed lower profits because of a switch in their methods of accounting, from FIFO (first in first out) to LIFO (last in first out).

Generally speaking, however, if profits go up, so do bonuses.

Bonus outlook for 1976

For many companies, 1975 will be a flat year for profits. Therefore, bonuses awarded in 1976 for performance in the year past will likely be about the same as in 1975.

Companies continue to work hard on their bonus plans to tie the reward more closely to individual achievement. Most companies with such plans believe the plans provide an important incentive to achieve

Salaries of Line and Staff Executives (in thousands)

Table #2

Size of company (By sales volume in millions)	Functional positions: Marketing	Manufacturing	Finance	Legal	Research	Personnel
$1 to $5	$26	$22	$25	$22	$23	$21
5 to 15	31	27	33	26	28	24
15 to 25	34	32	37	31	32	26
25 to 35	38	36	41	34	36	27
35 to 50	42	38	45	36	40	29
50 to 75	46	42	49	40	44	33
75 to 125	50	45	53	45	48	36
125 to 250	54	48	58	49	51	40
250 to 500	68	61	72	61	60	51
500 to 1,000	76	69	84	70	66	56
1,000 to 2,000	83	75	99	98	75	66

NOTE: Salary data are for bonus-paying industrial companies, projected to reflect levels of January, 1976.

Bonus Levels for Line and Staff Executives

Table #3

(As a percent of salary—salary in thousands)

Salary	Functional positions: Marketing	Manufacturing	Finance	Legal	Research	Personnel
$20	10%	10%	15%	14%	22%	13%
30	13	14	20	18	25	17
40	18	18	25	22	28	21
50	22	22	30	26	30	24
60	26	25	35	29	31	27
70	30	28	40	32	33	30
80	34	32	45	35	34	33
90	38	35	49	37	36	36
100	42	38	53	40	37	39

company goals. To be effective, an incentive plan must have certain key requirements:

First, the plan must apply only to those whose work significantly affects results. On a corporate level, this means top management and key subordinates. For a plant incentive plan, it means plant management.

Second, goals must be preset, understood by participants, and achievable. Performance must be judged by factors which the participants can affect.

Stock options

For a business as a whole, this might be a preset relation between bonus awards and return on investment. For a plant management incentive plan, the size of the bonus payments might depend on controlling production costs.

Three fourths of the 1,300 firms included in our annual compensation study have some form of long-term income plans for executives. Ninety percent of these companies still use stock options as at least part of a long-term income plan.

Some form of stock option plan, it seems certain, will always be a part of the compensation program of most public corporations. Stock option plans have had their problems, but they also have the virtue of automatically relating the income of management to the welfare of stockholders.

There are also important practical advantages to stock-related plans. For instance, executives' income from options is not reported as compensation in corporate proxy statements.

True, over the last few years, income from stock option plans has been almost negligible. In many instances, the company's stock has been selling for less than the option price. However, income from long-term income plans went up substantially in 1975. This, of course, was due partly to the stock market rise.

Many firms which canceled options and reissued them in 1973 or 1974 now find that the market value of their stock is above option price. Thus, these options have considerable value.

Other long-term plans

Recently, a number of plans have evolved which result in substantial payments to executives, whether the company does really well or not. The newer profit improvement plans fall in that class.

So do the so-called value or net worth plans which surfaced last year. They virtually guarantee a substantial extra salary payment to executives. These plans base awards upon an increase in the company's net income or book value.

One firm has a new system which will pay the management group about seven percent of the market value of the company simply for staying with the firm for seven years.

Most directors expect corporate

officers to be substantial owners of company stock. These corporate executives make decisions which vitally affect the company's long-term success. Thus, board members feel, key executives should have their own financial future tied closer to that of their company.

Investors, also, must wonder if the absence of major stockholders on the management team shows lack of confidence in the future of the firm.

Total Compensation of Chief Executive Officers

(In thousands)

Table #4

Salary	Bonus	*Average long-term income	Total annual income
$ 50	$ 15	$ 20	$ 85
75	26	33	134
100	38	48	186
125	53	66	244
150	71	86	307
175	91	109	375
200	116	132	448
225	144	158	527
250	170	185	605
275	195	215	685
300	225	249	774

The size of bonus and long-term payments relative to salary clearly changes with the size of the chief executive officer's company. The larger the company, the greater the percentage of incentive awards becomes to total annual income.

*Includes only executives who actually realized gains from stock options or long-term bonus plans.

Many own little stock

Sibson & Co. studied stockholdings listed in proxy statements of some 600 firms. The study shows that one out of three directors and executives own minimal numbers of shares in their company, or none.

In the past, because of stock option plans, key executives usually held major blocks of their firm's stock. A steady tightening of rules governing options, an erratic stock market, and frequently inappropriate administration of option plans changed that. Many executives appointed in the last five years have no shares obtained through company stock option plans.

This new development is giving directors and investors some concern. One result is the emergence of special stock purchase plans. These plans permit newly appointed executives to buy company stock, usually at the market price, on favorable terms such as low-interest company loans. This type of plan assures stock ownership immediately. It gives an executive an immediate stake in his company's future.

That is not the case with stock option plans, however, at least until the option is exercised.

Stockholder unrest

Stockholders are starting to take a closer look at executive pay. The result: a number of stockholder protests, including lawsuits over management compensation plans.

Protests, in 1975, have often centered on lending officers company funds to exercise their options. One stockholder group objected to such a loan even when it was extended under a plan approved by the stockholders.

Also under attack is the granting of stock appreciation rights under nonqualified option plans. In these cases, the company may pay the executive the difference between the stock's market value and the price he must pay under the option plan.

Take, for example, an executive who has an option to buy 10,000 shares of stock from his company at $20 a share. Since the option was granted, the stock's market value has risen to $30 a share. By exercising his option, the executive could make a handsome profit. But he is unable to do so.

He can't raise the cash to buy $200,000 worth of stock, even on margin.

So the company comes to his rescue. It pays him $100,000 in cash or stock. That's the profit he would have made by buying $300,000 worth of stock for $200,000.

Effect on directors

For the company, the tax result is precisely the same as if the executive exercised his option. Yet some stockholders have objected strenuously to these plans.

Directors are taking a more active interest in executive compensation plans. One reason for this heightened interest is the recent stockholder dissent. Another reason is an increase in the complexity of total executive compensation plans. On that subject, many boards indicate a need for more information and advice. Many are concerned, naturally, about depending totally on company employees who would benefit from the plans they recommend.

As a result, board members are turning more often to outside experts.

Each year, executive compensation planning grows more complex. There is no reason to think this will change in 1976. END

MR. SIBSON *is president of Sibson & Co., Inc., management compensation consultants. His article, published exclusively in Nation's Business, is based on Sibson & Co.'s exhaustive Eleventh Annual Management Compensation Study. Reprints of the article are available from Nation's Business.* *See page 12 for details.*

Why Many Business Secrets

The Freedom of Information Act is a mixed blessing for the businessman. Not only does it enable him to gain valuable knowledge, but it enables competitors to learn more about his company

CONGRESS'S CRUSADE to end secrecy in government has taken a surprising turn. So far, businessmen have used the Freedom of Information Act far more than either the press or the public.

More open access to federal files does give businessmen a wealth of opportunities to obtain information. But the Freedom of Information Act, passed in 1966 and amended by Congress last year, can also give companies a lot of headaches. In some cases, it can be used to attack business itself.

Businessmen are making extensive use of this law primarily to obtain as much knowledge as they can about regulatory or tax matters that affect them. In addition, executives find the law useful to discover what the government is really planning and the reasons behind its decisions.

A danger, in the eyes of many, is that competitors can use the same law to obtain secret information about your business that Washington required you to provide.

Trade secrets endangered?

"There is an enormous amount of information about business within government files, and the government can no longer be sure of protecting it," says an attorney at the Justice Department.

"The statute which defines trade secrets is vague. In addition, some financial data may be helpful to a competitor, but there is doubt whether it is confidential within the meaning of the statute. It will be a long time before all this is clarified."

In most cases, the agency notifies a company when its secrets are endangered. The company then asks the agency not to disclose data the company says is confidential. If the company disagrees with the agency's decision, the firm may then go to court to obtain an injunction to block release of the information. Such suits are so common that Washington lawyers recently held a seminar on how to defend clients against requests made under the Freedom of Information Act.

These requests have increased dramatically since February, when tough amendments added to the law last year went into effect. The Consumer Product Safety Commission, for example, had only 400 requests under the act during all of 1974. Now, the commission is averaging more than 100 a week, despite efforts to discourage formal requests by releasing as much data as possible informally.

Most of the publicity about the Freedom of Information Act has concerned release of once-secret material from agencies such as the Defense Department, State Department, Central Intelligence Agency, and Federal Bureau of Investigation.

However, the act is not being used chiefly to get access to classified documents. A Justice Department official explains:

"We estimate that the two most common uses of the act are businesses getting information on their competitors and lawyers seeking more data than they normally would be entitled to in a regulatory hearing."

Even so, the act is apparently little known outside Washington. Says a congressional staff member:

"We find that Washington law firms know about the act and use it extensively. For the most part, however, lawyers who are in other cities seem unaware of the act."

Impact on IRS

The newly amended law has had an especially big impact on the Internal Revenue Service. The effect has been to open up to public view many tax collecting techniques and guidelines once kept wholly secret.

"We get many requests for our audit technique handbook," says an IRS spokesman. "Roughly 97 percent of our employee manuals that describe our enforcement procedures, our training techniques, how we go about auditing, and to some extent when and why we audit are now available in our reading rooms.

"We sell copies of some of the manuals that once were kept secret.

"People even ask for information about their own examinations—what IRS has in their files. It can be provided, if it does not interfere with an active investigation. The only material not available is the specific details that would provide a road map to tax evasion if we did release them—our trade secrets, so to speak."

Are Now in Danger

After one corporation was indicted in 1970 for allegedly conspiring to evade $12.3 million in manufacturers' excise taxes, it brought a Freedom of Information Act lawsuit against the Internal Revenue Service. The corporation sought to obtain from the agency copies of any private rulings that IRS had given other manufacturers in its field.

These so-called IRS letter rulings are given on request to a company when one asks about a specific tax problem. Unless IRS believes such a ruling sets a broad precedent involving many cases, the ruling has not been divulged to others.

However, the Sixth U.S. Circuit Court of Appeals held in the excise tax case earlier this year that these private decisions must be made public on request. Now, IRS is preparing for release of letter rulings, after deleting material that would identify the source of the request.

In addition, the court said, IRS may be required to disclose substantial portions of IRS technical advice memoranda. These IRS memoranda are internal documents issued when

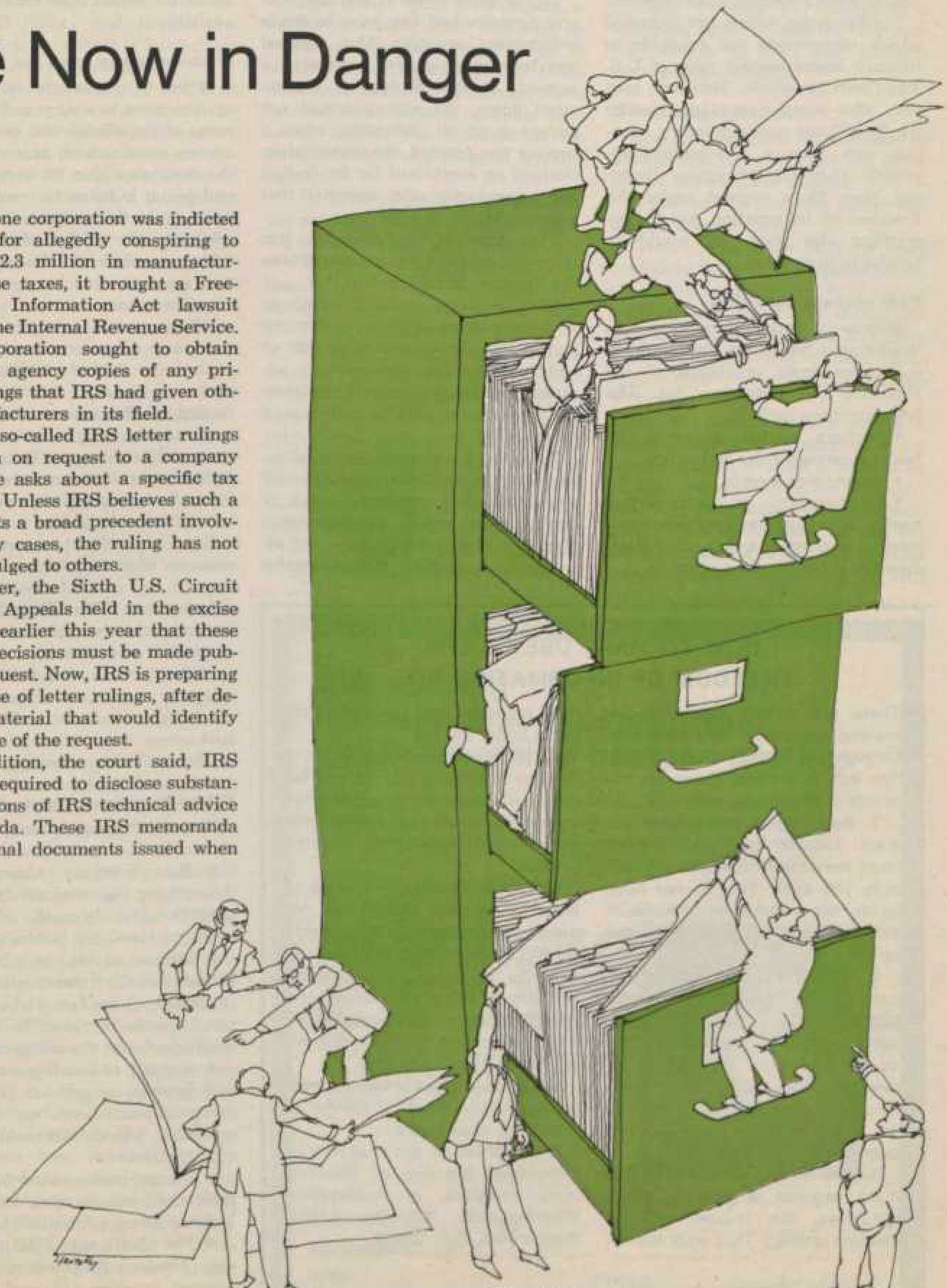


ILLUSTRATION: JOHN HEINLY

a local IRS office asks Washington how to solve a specific audit question.

Neither letter rulings nor technical advice memoranda are available to litigants under regular rules of U.S. Tax Court procedure. However, lawyers who practice regularly before the Tax Court and regulatory agencies now take a two-pronged approach. They ask for regular discovery, then file a request under the Freedom of Information Act for everything else they feel would be helpful to their client.

Few secrets shielded

Relatively little information that Washington has about your business is exempt from provisions of the Freedom of Information Act. The few exceptions include:

• Matters related solely to internal personnel rules and policy.

• Some trade secrets.

• Inter-agency or intra-agency memos or letters, unless these documents are adopted as a part of a decision or policy by the agency.

• Audits of financial institutions.

In the early years of the law, federal agencies had two ways to evade information requests. One method was lengthy delay in processing a request. Instead of turning the request down, the agency would not answer it at all. Secondly, when a request was granted, the agency often charged an exorbitant fee for finding and reproducing the material that was sought.

This kind of foot-dragging was ruled out by the 1974 amendments to the Freedom of Information Act.

Now, requests must be acted on within ten working days, unless the agency can show good cause for an additional ten-day extension. In addition, fees for finding and reproducing the material must be uniform and reasonable.

To make it easier to learn what information is available, agencies now must publish a quarterly index of final opinions, orders, and statements of policy and interpretation not already made public. Administrative staff manuals and instructions that affect the public also must be made available.

If the agency says no

When a request is refused, the agency must say why and state the name of the official who said no. The agency must act on any appeals of the decision within 20 days. If a second denial is taken to court and the court finds the action capricious or arbitrary, the official who made the ruling is subject to disciplinary action recommended by the Civil Service Commission.

When a denial is reversed, the court may assess costs and legal fees against the federal government. Experts say, however, that Congress intended reimbursement to apply only to those who sought information for some public purpose. Thus, the rule would apply to historical researchers, journalists, or public interest groups, but not to businessmen.

Some agencies issue regular reports on what they have released under the act and who asked for the information. The Federal Trade Commission says this tends to generate even more demands.

"When we say we have given a company access to some material, other firms want it, too," an FTC spokesman says. "Our releases tend to serve as a shopping list."

What business wants to know

Requests granted cover a broad spectrum. Here are a few examples:

• The American Association of Advertising Agencies asked FTC for a 1971 staff study on the relationship of drug advertising to drug abuse.

• Airlines which lost a route case before the Civil Aeronautics Board requested all the board's backup material on the decision so that they could challenge the ruling in court.

• A group of insurance companies and lawyers sought an FTC staff memorandum discussing the commission's jurisdiction over the insurance business.

• Oil companies asked for data on their competitors compiled by the Federal Energy Administration.

• The National Electronic Service Dealers Association, Inc., requested invoices obtained from re-

HOW TO MAKE USE OF THE FREEDOM OF INFORMATION ACT

There are certain guidelines for making application for information through the Freedom of Information Act. In general, these are the points to remember:

1. Be sure you specify what you want. The law says your request must reasonably describe the records you seek. You do not need to identify a document by name or title but if you can, this will speed up the process.

2. Identify your request as pursuant to the Freedom of Information Act (5 U.S.C. Sec. 552). Some agencies require you to identify it as a Freedom of Information request on the outside of the envelope, so that it goes directly to the unit that takes care of such queries.

3. The request should state that if no response is received within ten days, the request will be deemed denied. This puts the official on notice that you know your rights under the act.

4. You may also want to set a limit on how much you will pay for the information. To do so, ask the agency to notify you whether expenses will exceed a specific amount.

5. If your request is denied, a letter of appeal should be addressed to the head of the agency or department. The letter should describe the request, give the reason why it was turned down, and state that an appeal is being made. The government has 20 working days to reply to an appeal.

6. If turned down a second time, you probably need a lawyer to press the case further.

A pamphlet on the Freedom of Information Act may be obtained from Freedom of Information Clearinghouse, P.O. Box 19367, Washington, D.C. 20036.

pair shops during an FTC staff study of the television repair industry.

• Manufacturers asked the Occupational Safety and Health Administration for results of inspections made of a competitor's plant.

Companies preparing for an OSHA inspection may ask the agency for statistics on the violations most commonly found in their industries.

Generally, the cost to a seeker of information is ten cents a page for copied material plus an hourly charge to cover the work of the employee who searches out the documents. This charge ranges from $4.20 for a clerk to $11 for a searcher who is at the professional level.

To get quick action

A request may involve a single document or a whole filing cabinet. The request has a lot more chance of prompt compliance if it is specific and limited to the documents needed, officials say. If a great deal of data is needed, they add, the request should suggest some priorities, so the agency can release it in a planned sequence as it is dug out.

Some data is so extensive that it would be quite expensive to obtain.

Recently, for example, OSHA investigated alleged cancer deaths due to the commercial use of vinyl chloride. The investigative data fills two filing cabinets.

The long-drawn-out Federal Power Commission proceedings in the El Paso Natural Gas Co. pipeline case produced enough paperwork to fill several railroad boxcars.

The Freedom of Information Act has forced changes in some agency operations. Recently, the Federal Communications Commission destroyed a list of names of 10,000 people who had committed offenses, mostly minor, against communications laws. The agency checked the names of applicants for an FCC license against this list. Rather than risk having the names made public, FCC destroyed the list.

The Securities and Exchange Commission has warned publicly owned corporations to designate any confidential information the firms supply to SEC during investigations. Otherwise, SEC said, all the information it receives will be made available for release as soon as the case is ended.

Even though nearly everything is on public record, there still may be problems. Virtually every action of the Consumer Product Safety Commission is available to anyone. Even internal office memos, normally kept secret despite the Freedom of Information Act, are released by this agency.

The most frequent requests under the act come from businessmen seeking a report on an OSHA inspection of a competitor's plant. The question then arises, as it does again and again throughout government, what is confidential and what is not?

"We must give the original manufacturer an opportunity to claim confidentiality," explains an OSHA staff member. "When we send the inspector unannounced, he may pick up some things that have nothing to do with safety. He may learn sales figures, for example, or something about the manufacturing process. We used to write the companies and tell them to claim anything they want as confidential. We'd get back a letter saying everything was confidential.

"Now we send the companies a two-page form. It requires very specific details on what they claim is confidential and why."

Handling with care

The full impact of the Freedom of Information Act isn't clear yet. Some things, however, are obvious.

A lawyer who practices before regulatory agencies says:

"Any agency must be a lot more careful in the way it prepares its decisions and regulations. It is now a fairly simple matter to obtain the supporting documents for any decision and a great deal of other information about how and why a decision was made."

For a businessman, the law is a mixed blessing and requires a lot more attention to what is happening at agencies regulating his industry. Not only may some of his competitors' secrets be divulged to him, but his secrets may also be exposed to his competitors. END

How to Spot Future Fiscal

Applying business principles to government accounting could pinpoint dangers before they become disasters—at the federal level, as well as in states and cities

GOVERNMENT-OPERATED warning systems can quickly alert American citizens to physical dangers ranging from rising water in the local creek to an enemy attack.

There are no such warnings, however, to alert those same citizens when the governments their taxes support are threatened by financial dangers.

Surprised taxpayers suddenly find themselves in the middle of a full-blown crisis without much idea of how they got there.

Everything is costing more than expected, government officials explain, offering a choice of sharply higher taxes, sharply curtailed services, or deficit spending.

Citizens discover that seemingly reasonable financial commitments made in past years have grown into massive, permanent obligations they are supposed to meet regardless of their willingness or ability.

That scenario has been played in Washington, state capitals, and other communities across the country—most notably, New York City.

A businesslike approach

Is there a better approach to government finance—one that would apprise taxpayers of growing fiscal problems long before they reached the crisis stage?

There most certainly is, says Arthur Andersen & Co., one of the nation's largest certified public accounting firms. Chicago-based Andersen & Co. has developed a set of financial statements it says illustrate how government fiscal reporting can be more meaningful.

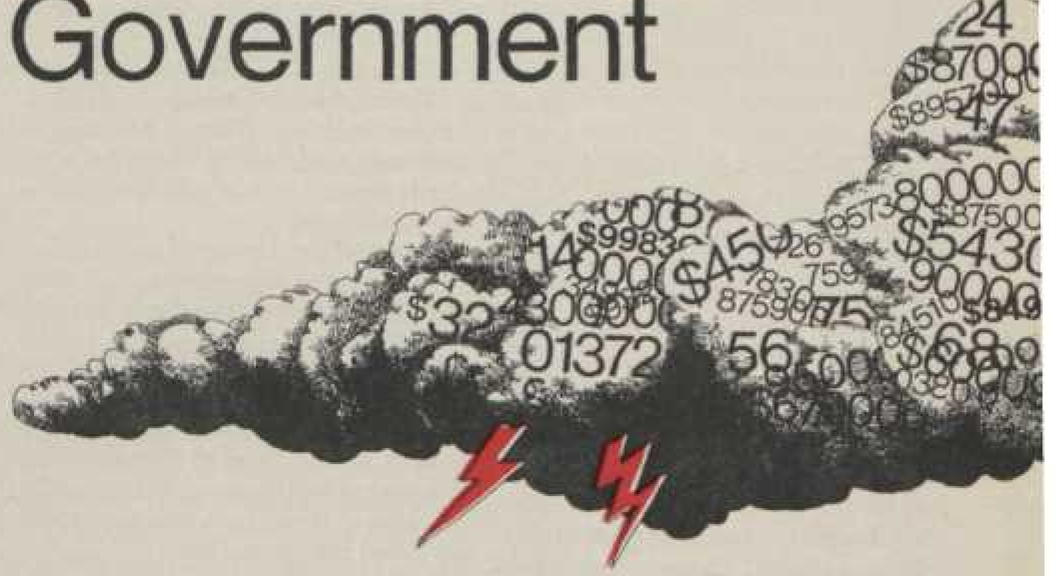
Under the Andersen proposal, governmental bodies would adopt the business accounting practice of issuing consolidated financial statements on an accrual basis. This would signal whether future spending commitments were building up too fast to maintain fiscal stability.

Governments, in short, would be required to give taxpayers as full an accounting as corporations give to stockholders. Annual government balance sheets presumably would be publicized through the media as government budgets are now.

For the most part, what knowledge citizens now have about local, state, and federal government finance comes from news accounts about budgets that list revenues and expenditures on a cash-flow basis for a fiscal year. As the year progresses, the budgets record income when received, spending when money is paid out. Cash income and outgo are compared at the end of the year.

By contrast, accounting on a consolidated accrual basis requires that spending commitments are recorded as they are made, and revenues as they are earned, regardless of when the cash is actually paid out. The annual balance sheet compares overall assets, including those revenues, and overall liabilities, including those spending commitments. A cash bud-

Crises in Government



get does not. Applying business accounting principles to the federal government's financial affairs puts them in a far different perspective from the one given by official reports.

While the U.S. government's method of keeping books shows a $3.46 billion deficit for the fiscal year that ended June 30, 1974, the use of standard corporate reporting practices reveals the deficit as $95.11 billion, nearly 30 times the official figure.

Overall, according to Arthur Andersen & Co., standard corporate accounting also shows a financial operation with $1.1 trillion in liabilities and $329.3 billion in assets in that fiscal year, for an accumulated deficit of nearly $812 billion.

The accounting firm's plan is contained in a report, "Sound Financial Reporting in the Public Sector—A Prerequisite to Fiscal Responsibility." The report is the result of extensive investigation and research by Andersen executives and staffers.

A devastating crisis?

Among the findings:

"Several large cities, states, and other governmental units appear to be in serious financial difficulties. These problems may produce a devastating financial crisis unless timely corrective action is forthcoming.

"All too often, the financial statements of governmental units have proved to be less than adequate for providing basic financial information. Decision-makers, investors, and the public have been misled by not being alerted to the problems which were developing. When difficulty occurred, they were confused and frustrated in their attempts to deal with the emerging financial crises."

Crucial figures

To be "meaningful," the report says, governmental financial statements "should include all costs, whether paid or accrued. Furthermore, the total accumulated deficit is crucial, because this is the amount of future taxes required to pay present liabilities. To the extent that this amount exceeds the amounts that can reasonably be expected of future taxpayers, a potential for crisis develops.

"The crisis could become real if taxpayers are no longer willing to pay for the current costs of government, or if investors become concerned that governmental units may default on their obligations."

The driving force behind development of the Andersen & Co. plan is the firm's chairman, Harvey Kapnick.

"I'd been concerned with financial reporting in government for some time," he says. "But I really started to become more involved as I traveled around the world in recent years and business and government leaders told me repeatedly how the welfare of their own countries was tied to a strong American economy.

"If our economy, as big as it is, isn't strong, other nations are going to have trouble. To them, a strong dollar is an absolute must. When you are talking about the U.S. economy, you are talking about the public sector as well as private enterprise. I started looking into the financial position of the U.S. government, and I asked our Washington office to get me a financial statement.

"I never knew what I was opening up. I figured there would be some sort of financial statements in addition to the budget, but I thought they would be far more meaningful than they were. The next step was to start thinking of how you would go about putting together a meaningful statement on government finances."

The end product was the report on financial reporting in the public sector, with its recommendations that:

"The United States government should provide annual consolidated financial statements on an accrual basis, including all entities in the government and all programs which may require future taxes for present liabilities. Cities, states, and other political subdivisions should be required to publish similar statements annually."

Disclosure to bond buyers

In addition, the report suggests that state and local governments should be required to make a full disclosure of their financial condition to prospective purchasers of their securities. The Securities and Exchange Act now exempts govern-

mental units from the disclosure laws.

Here is a thumbnail sketch of the Andersen consolidated balance sheet for the federal government in fiscal 1974:

Assets. Cash and cash equivalents, $18.1 billion. Gold, at the official rate of $42.22 per ounce, $11.6 billion. Receivables, including loans and accrued corporate income taxes and delinquent taxes, but not withheld individual income taxes, $86.3 billion. Inventories at original cost, including military equipment, stockpiled materials, and commodities, plus other types of materials, $50.6 billion. Land and depreciated personal property at original cost, $147.4 billion. Deferred charges and other assets, $15.3 billion. Total assets: $329.3 billion.

Liabilities. Federal debt held by the public, $263 billion. Federal Reserve liabilities, including Federal Reserve notes outstanding and deposits of member banks, $93.3 billion. Current accounts payable and accrued liabilities such as interest and federal workers' annual leave, $50.4 billion. Other liabilities, $19 billion. Civil Service, veterans', and military retirement benefits, $300 billion. Accrued Social Security, $416 billion. Total liabilities: $1.14 trillion.

Not shown in budget

On its sample federal expense statement for 1974, the Andersen plan lists $111.5 billion not shown in the official budget. This includes $95.6 billion representing a noncash charge against 1974 outlays for increases in accrued liability for Social Security and for military and Civil Service retirement and veterans' benefits; a depreciation charge of $13.2 billion; and net expenses of $2.7 billion for government agencies whose operations are not covered by the regular federal budget.

On the other hand, the Andersen accounting deducts from the regular federal budget $16 billion for buildings and major military procurement. Those should be listed as capital outlays not charged to a single year, Andersen says. Also deducted are $3.9 billion of other items.

The net result is the $95.11 billion deficit for 1974 shown by Andersen, compared with the officially reported $3.46 billion.

For fiscal 1975, the Treasury Department reported a deficit of $43.6 billion, but Mr. Kapnick estimates that applying the business balance sheet concept would put the deficit at $150 billion.

Copies of the Andersen report have been given to top government officials, who are studying the far-reaching proposals.

Comptroller General Elmer B. Staats says the proposal "serves a useful purpose in illustrating overall aspects of the federal government's financial operations and in highlighting some of the critical financial questions that need attention."

Techniques challenged

Mr. Staats, who heads the General Accounting Office, says the proposal "certainly deserves further consideration by federal agencies."

He adds that he does not endorse the Andersen plan completely.

In applying an accrual system to federal finances, Mr. Staats says, he would prefer listing government-owned land at current value, rather than at original cost; would compute the long-range Social Security deficit as the government does now, showing a much lower deficit; and would question the propriety of depreciating government property, including weapons systems.

Arguments against techniques used by Andersen have been raised elsewhere in financial circles. Some commentators hold that government-owned gold should be carried at the market price, now more than $140 an ounce, rather than the official price of $42.22, as it would be carried under the Andersen plan.

Mr. Kapnick is not disturbed.

"I'm willing to agree with almost everything I've heard so far about current value," he says. "Land—put it on current value. In fact, I agree in principle that it should be. Raise the price of gold? I'll take that, too."

If shifting all property to current value wiped out as much as $100 billion of the deficit, Mr. Kapnick asks, "wouldn't we still be concerned that it was more than $700 billion?"

Dispute over how to value property, he adds, "shouldn't detract from the main issue here—sound financial control, accounting, and reporting."

The biggest dollar difference by far between official and Andersen figures involves long-term financial commitments for Social Security benefits.

Enormous dollar difference

Government officials estimate a $1.3 trillion shortfall between receipts and expenditures over the next 75 years. That approach counts contributions from those who will start paying into the fund in years to come.

The Andersen report's listing of a $416 billion accrued liability for Social Security is based on an alternate government estimate of a $2.5 trillion shortfall—a total reached by a calculation that includes only those now covered by the system. The government says this estimate is unrealistic, and it doesn't use it.

While the dollar difference is enormous, Mr. Kapnick says: "The totality of the thing is important, not whether you are talking about $1.3 trillion or $2.5 trillion. You have the same problem, of making up this deficit, and something has to be done.

"The issue is not whether you compute it one way or another, the issue is what are you going to do to bring it back under control.

"So long as that pension account remains out of control, there is nothing on this green earth you can do to get government back onto a sound financial basis."

Action, not words

Summing up his case for a balance sheet type of fiscal accounting by government at all levels, Mr. Kapnick says:

"Unless you put the whole picture together, you are never going to find out what the true financial position of a government unit is. When you don't know what that true position is, you get a lot of political rhetoric about government financial responsibility. But we don't need rhetoric. We need responsibility." END

REPRINTS *of this article are available from Nation's Business. See page 12 for details.*

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A Congressman Has His Say on DISC

It was my pleasure to contribute, at the request of your editors, comments for the article, "The Threat to an Export Program That Works" [October].

I am sad to say that the finished article seems to portray attacks on the tax subsidy for Domestic International Sales Corporations—the DISC program—as attacks on the business community. Such a conclusion is unwarranted and irresponsible. It is also a disservice to your readers, many of whom would benefit from my proposal to replace DISC with an equivalent reduction in the corporate income tax which would apply to all companies.

Permit me to make three points about the article:

1. It consistently links recent export growth and resulting benefits to DISC. Not even mentioned is the conclusion of many economists that it was the devaluation of the U.S. dollar that spurred export growth and improved our competitive position. This was a major point I made in comments to your magazine.

2. No attempt is made to balance numerous claims in support of DISC against the substantial body of arguments made by those favoring repeal. In such a presentation, your readers would naturally be left wondering why in the world anyone would want to get rid of DISC.

3. Claims about DISC's effectiveness in promoting exports are made many times in the article, basically without substantiation. Contrast those claims with the statement made to the House Ways and Means Committee by Lee L. Morgan, president, Caterpillar Tractor Co.: "I would like to say in all candor that, although 50.2 percent of Caterpillar's sales were outside the United States last year and we did benefit from DISC to the extent of about $9 million on our tax bill . . . I am not really sure that we did anything extra in order to generate additional exports, so I suspect I agree with [the contention] that not much has happened, at least at our company, in order to earn the tax deferral that has come from DISC."

I am more than willing to debate the merits of DISC under any reasonable circumstances. I regret that your magazine did not see fit to provide a forum for a real debate on this important issue.

SAM M. GIBBONS (D.-FLA.)
Member, Ways and Means Committee
U.S. House of Representatives

It certainly is misleading for opponents of DISC to state that DISC sales result in a tax loss to the U.S. Treasury.

Half of the combined profit on DISC sales is taxable to the manufacturer, and 50 percent of the DISC half is also taxable to the parent as a deemed dividend, so that taxes are deferred on only 25 percent of the combined profit.

Also, DISC sales have gone up at a greater rate than total sales, and federal taxes have increased more at the 75 percent rate than might otherwise be the case.

For example, total sales inside and outside the country of America's largest corporations rose 49.4 percent from 1972 to 1974. Had exports risen the same percentage, taxes on export sales would have gone up $1.4 billion in this period. Under the DISC program, however, the increase in export sales was 99.4 percent, generating additional taxes of $2.1 billion.

E.J. CHADY
Secretary
Thomas Industries Inc.
Louisville, Ky.

The right man or woman

Re David O. Bailey's article, "How to Hire the Right Man" [October].

My disappointment was multiplied many times, I'm sure, by other women who read his suggestions on what to do to find a *man* to fill a senior executive position. The attempt at assuagement by inserting the words "or woman" in the fourth paragraph was indeed pathetic.

It is this kind of continued sexist conditioning, intentional or not, that is excluding qualified women from serious contention for positions.

Women are rapidly becoming a formidable force in the conduct of our nation's business. Your readership undoubtedly reflects this trend. Couldn't an attempt be made to make otherwise valuable articles such as Mr. Bailey's applicable to all concerned?

MARIE F. WILSON
Sales Promotion Coordinator
Fisher Body Division, General Motors Corp.
Warren, Mich.

An item titled "Now Is a Good Time to Hire Staff" in "Executive Trends" [September] contained a rather obvious discriminatory statement. Employers were urged to: "Zero in on the man's objectives, experiences, and track record."

Come now, we certainly should have reached the point where we no longer assume all excellent executives are men.

KAREN H. GOULD
Project Coordinator
Chicago United
Chicago, Ill.

Common situs response

Re the "Sound Off Response" [October] in which you report that all but a handful of readers replying to your August "Sound Off to the Editor" question oppose pending legislation to permit common situs picketing in construction.

Please note that Pat E. Damiani, of New City, N.Y., described as an electrician and among the few respondents favoring the picketing, is also business manager of Local 363, International Brotherhood of Electrical Workers.

WILLIAM A. MALONEY
President
Vista Electrical Contractors, Inc.
Nyack, N.Y.

[*Editor's Note: Mr. Damiani's comments, as reported in the "Sound Off Response," made it clear that he is a union member, although they did not mention that he is a union officer.*]

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Bumper-to-back-of-cab dimension (BBC) of trucks shown, top to bottom:

52" BBC W-Series Diesel linehauler, also comes with 82" BBC sleeper cab.

82.5" BBC C-Series is America's most popular tilt cab truck by far.

93" BBC LN-Series Louisville short conventionals set new quality standards in mediums and heavies.

108" BBC F-Series conventionals are Ford's best-selling trucks.

105" BBC L-Series Louisville long conventionals gross up to 82,000 lbs. GCW.

118" BBC LTL-9000 Long Louisville is new top-line Diesel linehauler.

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LESSONS OF LEADERSHIP
PART CXXVII

Meeting Management Challenges With Imagination

The Gillette Co. has enjoyed great growth under Vincent Ziegler. In this interview, Mr. Ziegler describes operating methods which have helped his firm achieve that growth

BECAUSE GILLETTE and shaving have been synonymous for generations, the year 1968 was historic for The Gillette Co.

That year, for the first time, revenue from the sale of razors and razor blades was less than half of Gillette's total sales revenue.

Today, razors and blades represent only 30 percent of the company's sales.

The major share of sales income is now derived from a wide range of products. These products include shampoos, deodorants, hair sprays, appliances, surgical supplies, writing and marking instruments, cigarette lighters, leather goods, sunglasses, cosmetics, sandwich bags, scouring pads, and mouthwash.

A long way

Gillette also owns Welcome Wagon International, Inc., and it operates a multimillion-dollar medical evaluation center. There, every Gillette product and the components that go into it are tested for safety and effectiveness.

The company clearly has come a long way since 1901, when it began life as The Gillette Safety Razor Co. In the firm's first three years in business, founder King C. Gillette sold a grand total of 51 razors and 168 razor blades.

Diversification of the product line began in 1948, when the firm bought a small midwestern company which produced home permanent wave kits. The product became a household word, thanks to a famous advertising campaign built around this question: "Which twin has the Toni?"

One of Gillette's periods of greatest growth has been under the leadership of Vincent C. Ziegler, who became chairman and chief executive officer of the Boston-based firm in 1967.

That year, net sales were $428 million. By last year, sales had tripled to $1.2 billion, and they are still increasing.

Profits have also risen appreciably, although not at the same rate as sales. Gillette feels it has been strengthened by diversification, but profit margins are not as high in its newer areas of operation as they are in its original field. Seventy percent of the company's net income comes from razors and blades.

Now 65, Mr. Ziegler retires at the end of this month. Under Gillette bylaws, however, he will remain on the company's board until he reaches 70.

"The good Lord willing, I'll do that," he says.

Open door policy

Although not a college graduate himself, Mr. Ziegler is on the boards of a number of institutions of higher learning, including Boston College and Northeastern University. He is also a member of the visiting committee to the classics department at Harvard University.

Mr. Ziegler, a man with a wry sense of humor, is soft-spoken and friendly. He has maintained the company's open door policy, under which any Gillette employee can go to the top executive to discuss any personal problem or grievance.

That practice began, Mr. Ziegler recalls, with an earlier chairman who not only maintained an open door policy, but had no door on his office

"This company has been fortunate in that we have a pretty good idea of what we want and the imagination and energy to do it."

at all. That was years ago, when the company's corporate headquarters were in the same building with its manufacturing facilities, in south Boston.

Now, corporate headquarters are in the Prudential Center in midtown Boston. There, Mr. Ziegler talked about his company and himself in a recent interview with a NATION'S BUSINESS editor:

What are the biggest challenges facing business today?

The general attitude of the public toward business. It is a negative attitude, fostered by some segments of academia and various politicians. That attitude involves demands for further controls, further restrictions, and greater tax burdens on business.

Of course, those making such demands fail to recognize that without business there would be no taxes paid at all.

The alternative to our private enterprise system is not very pleasant to contemplate. At best, it would be socialism.

At Gillette, in particular, the main challenge is to have enough imagination, creativity, and aggressiveness to make our company continue moving forward.

I think we do have these qualities. This company has been fortunate in that we have a pretty good idea of what we want to do and the imagination and energy to do it.

Gillette has 57 manufacturing plants in 23 countries, and it has more than 33,000 employees. You sell hundreds of different items in more than 200 world markets. How does the top executive delegate authority for an operation of that size?

The delegation has to be quite complete. All our operating people know their spheres of interest and their responsibilities. Of course, we have regular ways of checking on how they respond to that sort of delegation.

Could you describe some?

For one, the usual reviews of financial performance of specific operations. In addition, we conduct yearly reviews of our top 1,500 people. We go over with them their goals and how they have met them.

We call it the management inventory review. It has been going on a long time. It is very valuable in assessing people, in knowing who they are, and how well they are doing. The managers to whom the individuals report take part in this review.

Who is the top person participating?

Myself. I have done it year in and year out. It is a long process, but very valuable, I believe.

What is your overall philosophy of management?

Forrest Akers, who was my boss at Dodge Motor Co., once told me: "Young man, you're getting along pretty well. I just want to tell you one thing. When you stick a pin in people, they hurt. So just be sure you treat people as people."

That has been a pretty good piece of management advice.

Tell me more about your own career. Didn't you go to work right out of high school?

Yes. My business career began with a Detroit advertising agency, George Harrison Phelps. I was assigned to the Dodge account, writing publicity. Then Dodge asked me to join their own advertising staff, which I did. Later, I shifted to selling and became assistant to the director of sales. My job was looking for opportunities for new business.

That was a lot of fun. President Roosevelt, in the early 1930's, had set up a program to deal with problems of the Midwest dust bowl. Basically, it was an extensive replanting opera-

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tion. I saw it as an opportunity to sell some Dodge trucks, which we did.

But you went on to other fields?

Yes. Prohibition was repealed in the United States, and Hiram Walker, the big Canadian distiller, wanted to set up an American sales organization. The company asked me to help.

It took some thinking before I decided to leave Dodge. My experience there had been a very good one. But the auto industry didn't pay too well in those days. The opportunity Hiram Walker offered paid better and was interesting. So I took the offer.

I continued to live in Detroit and worked in Hiram Walker's headquarters in Walkerville, Canada, just across the Detroit River. I got some of the flavor of international business, even though it was just North American international. In 1942, I left the company to go into the army.

How did you come to Gillette?

One of the men I knew in the army in World War II went to Gillette as sales manager. He asked me to come to work. I was hired as executive assistant to the vice president. Three years later, I went back into sales and was sent to New York City as eastern division sales manager.

Later, I came back to Boston as assistant general sales manager. Then, it was general sales manager, vice president in charge of sales, and executive vice president. In 1965, I became president of Gillette, and I became chairman and chief executive officer in 1966. I've been in that rut ever since. There aren't many opportunities for advancement in this job.

At some point along the way, did you set your sights on the top spot and work to get there?

I don't think things actually happen like that. I think that as you move up, you always think the job ahead is one you can do.

That's the way it was with me. I felt that what I was doing was fine, but that I could do something beyond that.

But I don't think I ever sat down at some point and said: I want to be chairman of the board.

What do you like best about your job?

Things that may sound trite. Like a feeling of accomplishment and relations with other people in the company. Those relations are very good at Gillette. There are very few personal antagonisms.

Our people respect each other for what each is trying to do and for what the company is trying to do. I like that. That is the most satisfying thing about my job.

I like being part of a business that has a sense of integrity, is useful, and is aware of having value in its consumer products.

I like having something to do with a business that has been way ahead of the ecologists.

What do you mean by that?

Well, for example, our plant in south Boston takes in water from Boston harbor for cooling. When that water leaves our plant, it's a lot cleaner than it was when we took it in.

This was true long before today's environmental movement.

In other parts of the world, where ecological pressure groups are not nearly so strong as here, we have regularly done a very good job of water and air pollution control. We have an excellent record of extracting harmful chemicals from substances we use in our business. We have always done so.

> "We communicate by being there, by personal observation."

Many of your products come in aerosol spray cans. Are you concerned about the controversy over their use?

Of course we are. But we think the danger from fluorocarbon propellants used in spray cans has been overplayed. The people who originally claimed that fluorocarbons could deplete the earth's ozone cover now admit to some significant errors in their computations. Both industry and federal agencies are investigating to determine if fluorocarbons present a real hazard. Information available at this point makes the danger seem questionable, I believe.

Edwin A. Gee, a Du Pont senior vice president, recently pointed out that one of the proponents of the theory that fluorocarbons damage the earth's ozone now reports the original calculations were off 300 percent.

Even if the calculations had been correct, Mr. Gee notes, "the increased solar radiation we would experience during the two to three-year test period proposed by industry would be equal to that acquired when one moved from Wilmington, Del., to Washington, D.C.—some 125 miles closer to the equator."

What goes into the development of a new product at Gillette—your Trac II razor, for example?

When you start out to develop an improved razor and blade, you go on the assumption that the ultimate in a razor blade would be a sharpened wire. The reason is that the only part of the blade that actually shaves you is the edge.

Technicians at our laboratories in Reading, England, and here in Boston had done research on wires and could sharpen them. The researchers were thinking in terms of several wires in a single unit. But the wires would just roll when rubbed against the face. The researchers decided, instead, to explore the use of a number of blades, in a venetian blind type of design.

The next question was how many blades were needed to do the best job. Four did very well. So did three. But neither did better than two. However, two blades were a significant improvement over one. The work on the final design was done at our laboratories in Boston.

Is Trac II your most successful shaving product?

It has been the most successful in the past 15 or 20 years. I'd say that the introduction of the Super Blue Blade in the early 1960's was a more

sensational development in its time. There was a tremendous difference between the Super Blue Blade and the old carbon steel blade the industry had known up till then.

I was running Gillette's sales department at the time. I was sure the public was going to be knocking the doors down to buy this wonderful new blade. So we put it out on the market, and nothing happened, for weeks. But finally it did catch on big.

Why the delay?

I think men just don't move as fast as women do, when it comes to buying a new product.

I can tell you an interesting story about that. I have a friend here in Boston who is a top financial man. About five years ago, which was ten years after we had brought out the Super Blue Blade, I was at a dinner party with this man. He asked me, with great enthusiasm, when we had brought our new blade on the market.

"What new blade?" I replied. "We haven't brought out a new blade."

"Well," he said, "I was at a Yale reunion and forgot my razor. One of my classmates lent me his razor with a new blade in it. I started to shave but couldn't feel anything. Then I felt my face and found the whiskers were gone. That blade is sensational."

I asked him what he had been using before.

"During World War II," he told me, "my wife's father bought up all the razor blades he could to make sure he didn't run out. When he died, he still had a big box of new razor blades. I brought them home, and I've been using them ever since."

I said: "My God, Bob. You are in the investment business. Didn't you know we brought out this new blade years ago?"

He told me he had heard about it but thought it was just some kind of advertising gimmick.

Which goes to show it can take a little time for men to catch on to new things.

Is there a limit on how far shaving technology can advance?

No. We have believed we had reached the ultimate many times, during the history of this company. But there has always been something better. We're always looking for something better. In fact, there are product developments under way in Gillette that I can't talk about now.

"We have believed we had reached the ultimate many times. . . . But there has always been something better. We're always looking. . . ."

Has there ever been concern that electric razors would make blade-shaving obsolete?

Always. I think there always should be.

One of your hottest products is the Cricket disposable lighter, made by a French company you acquired. Lighters seem pretty far afield from your basic product line. Is there a connection?

There are a lot of connections. First of all, Cricket is a disposable product. It goes through the same general channels of distribution as our other products. It is mass-produced in countries where we already had manufacturing expertise.

All these factors made the disposable lighter fit our kind of business. It has been a very happy venture.

The way Cricket lighters are made has changed considerably, I understand, since you acquired the company.

Yes. I was surprised when I first saw the little factory where the parts were made, in Annecy, in the French Alps. This was just two years ago, but assembling the lighter was still largely a cottage industry.

At the factory, lighter parts would be put into baskets. Fathers would come in from the surrounding countryside, pick up some parts, and take them home. After supper, mama, papa, and the kids would get together and assemble the lighters.

It is a far cry from that type of operation to the heavily automated factories that now make the Cricket. There are two in France and one each in Puerto Rico, Mexico, and Spain.

You also acquired Welcome Wagon, which helps newcomers adjust to a community by acquainting them with services, products, and other aspects of living there. The new families are contacted in their homes. How does Welcome Wagon fit into the Gillette scheme of things?

I had felt for a long time that the potential of door-to-door sales was something we couldn't overlook.

However, we didn't know anything about that kind of business. We didn't know anything about how a door-to-door salesman gets in to see people or how you organize and control an operation based on that kind of selling.

We felt that acquiring Welcome Wagon was a very good way to find out a lot of things we wanted to know. At the same time, it was a business that had no inventory and no fixed assets to worry about.

How did it work out?

It has been a very good deal all around. We have made money.

Today, we are selling in the home through Jafra, a California-based cosmetics company we bought three years ago. It is doing spectacularly well.

We learned a lot of things from Welcome Wagon which we used at Jafra, and Welcome Wagon has learned some things from them.

How do you communicate on a company-wide basis?

We communicate by being there, by personal observation. This is particularly true in our international operations. Our principal officers regu-

Make your

voice

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Do you have the time—
and expertise—
to testify before a
congressional committee?

larly visit our overseas operations. I'm in Europe four times a year and occasionally in Latin America and the Orient. So our contact is direct. On top of that, global telephone and telegraph give you instant communication when that is necessary.

When you visit a Gillette facility, are you checking up on specific performance areas, like production, marketing, or selling?

When you have been in business as long as I have, you don't have a precise list of things to check. Rather, you sense what needs looking into. You know enough about the operation to sense where the problems are.

How about communicating with your employees?

It's very difficult to communicate to the extent you want. However, we do go to our people regularly to consult their opinions. We have one of our employee opinion surveys coming up next spring. Surveys help inform us what our employees are interested in and what they are concerned about. Those are the topics we focus on then in employee communications.

Any special reason why you didn't finish college?

Well, the Depression was on, and there wasn't enough money to send me to the kind of college I wanted to attend.

I went to a city school in Detroit at night for a couple of years.

Your success at Gillette is certainly pretty good proof that you weren't handicapped by lack of a college degree.

I don't think I am any less educated for not having a degree. I have spent quite a bit of time in the educational world quarreling with those in it about teaching methods.

Could you elaborate on that?

For example, I don't think colleges are teaching youngsters a lot of things they should know. Ask any 100 college students what profits business makes, and the answers will astonish you.

I think youngsters should be taught what profit levels really are, why we need the capitalistic system, and what the fruits of the system are.

If a businessman starts to explain these things, there is usually somebody who points out that the speaker is getting a great big salary from business. He is putting you down even before you can make your point.

Do you speak much on business's role in society?

No. I'm a lousy speaker.

What would you tell a young person about entering the business world today?

One problem is that youngsters today have no idea what they want to do. There is too much of this taking a year off after college to sort of find themselves. The first thing they ought to do is determine what they would be good at.

My son is a college teacher. He has always been obviously right for that field—intellectual, bright. Some kids are obviously sales types—outgoing, very capable of expressing themselves. I think youngsters like that ought to be exposed to sales work. That is a very rewarding experience, believe me.

So I would recommend that young people contemplating a career find out first what they would be good at. There are people to help them do this. We have people in our company who evaluate youngsters we have just hired, determining what they are best suited for.

David Packard kicked up quite a storm a couple of years ago when he said corporations should not help finance antibusiness teaching in colleges. What's your attitude on that?

That's one of my favorite subjects. There are a lot of perennial undergraduates in the business world who keep running back to colleges for this or that event. They are the guys who are handing out the money that helps enable college professors to teach our young people that business is inherently evil.

I don't see any sense at all in business paying the bill for that kind of teaching. END

REPRINTS *of this article are available from Nation's Business. See page 12 for details.*

20 Minutes with a TWA Air Freight Specialist can uncover profits you never knew were there.

Unless your company has recently conducted an in-depth review of the effects of Air Freight on your total cost of doing business, you could be missing an opportunity to substantially increase profits.

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Making it better.

TWA

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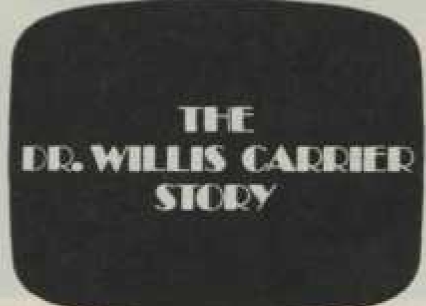
A WORLD-WIDE MARKETAIR SERVICE

A Bicentennial Salute to American Business

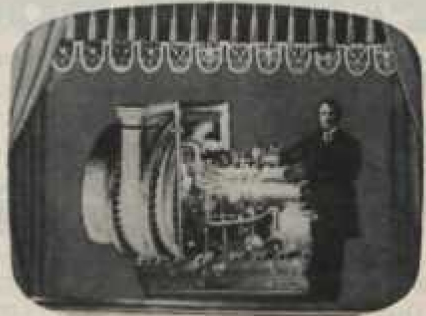
(Trumpet fanfare)



Keeping cool has challenged man's ingenuity throughout the ages.

By the early 1900's huge machines were in a few factories, but the refrigerant they used was toxic and explosive.

Then, in 1922, Dr. Willis Carrier invited 300 engineers to see his newest invention.



A small, safe, centrifugal refrigeration machine.

Because he wasn't sure anyone would come, he threw in dinner and a boxing match. His demonstration was a success.

Carrier's revolutionary invention pioneered modern-day air conditioning and brought year-round comfort to millions worldwide.

This has been a presentation of the Chamber of Commerce of the United States

in celebration of America's Bicentennial.

This is one of a series of educational public service messages being shown on television across the nation. They are based on articles which appeared in Nation's Business.

By VERNON LOUVIERE
Senior Editor

Treating Each Stockholder as an Individual

The personal touch still is important, even with a corporation the size of American Telephone and Telegraph Co.

Since 1956, AT&T representatives have been making house and office calls on shareholders to talk about the company. With an average of 50,000 such calls a year, roughly a million shareholders have now been contacted in the program.

As far as can be determined, AT&T is the only major corporation in the U.S. which communicates on a one-to-one basis with its shareholders, who now number 2.9 million.

The visits are conducted by management-level men and women who work for the Bell System's operating telephone companies. Each manager is expected to make about six calls a year, on his own time, until he has made about 40. Many managers volunteer for more.

Mrs. Patricia Enright, of St. Joseph, Mo., is one of 50,000 AT&T shareholders being visited this year by Bell System managers. Here, she receives a briefing on how AT&T is doing from William P. March, Southwestern Bell plant manager. Mrs. Enright's daughter, Laura, joins the discussion at the Enright home.

For example, William F. Milburn, foreman supervisor with the Chesapeake and Potomac Telephone Co., of Washington, D.C., has chalked up 42 visits, but he intends to keep on making them. He says:

"I'm still active in the program because I enjoy meeting people. Our shareowners are friendly, interesting, and inquisitive about the business. The questions they ask most often are about their stock. They want to know about its performance in the stock market, as well as, 'When am I going to get my next dividend?' "

AT&T launched the program to give shareholders a sense of belonging. Since only a few thousand can attend the annual stockholders' meeting, AT&T wanted the others to enjoy a personal relationship with the company as well.

Obviously, a company representative who is going to call on an individual or family he has never met and answer questions—sometimes tough, searching questions—needs a lot of assurance and a lot of preparation.

The individual telephone companies have workshops, which run two or three days, where trainees go through role-playing exercises. The trainees are peppered with questions about company earnings, growth, construction, and long-term prospects, and about federal regulations.

Charles D. Redding, administrator of the program for C&P in Washington, says:

"The visits are useful not only to the shareholders, but the company as well. Our visitors get valuable feedback which is put in a report and sent to AT&T. And, of course, these meetings help in the development of our managers."

Approximately 99 percent of the visits are to small shareholders in their homes. Owners of 2,000 shares or more are usually contacted by department heads, who are more familiar with company policy and financing.

Shareholders often express appreciation for the visits and ask why the company undertook the program. Their appreciation is among the reasons.

"AT&T has a great need for outside capital, and the shareholders provide a lot of that capital," Mr. Redding notes. "For example, we need $4 billion now for a construction program."

The company communicates with its shareholders in other ways, as well. Yearly, more than 180,000 letters and almost 140,000 telephone calls receive individual attention from a battery of shareholder correspondents. The letters and phone calls frequently concern dividend checks which have not been received for one reason or another. But there are other problems, too.

"Shareowners appreciate personal service," says one correspondent. "A shareowner in Maine calls, obviously upset. 'My house burned down and all my stock was destroyed. What'll I do?' We assure him that a new certificate can be issued and that we'll be happy to take care of it. He's delighted, and so are we."

One shareowner had his dividend check replaced after his dog chewed it up. Another lost a stock certificate, only to find it later in the refrigerator.

Warm relationships develop between shareholder correspondents and shareholders. A couple in Florida, who had received help on a stock problem, wrote: "If you're ever down this way, visit us. We insist." •

continued on next page

Upgrading Teachers' Economic Knowledge

Florida businessmen are pushing a statewide program to overcome economic illiteracy in the public school system. The program is twofold: instruction for students and instruction for teachers.

"One problem we've run into is that, while teachers seem ready and willing to help, very few of them have the basic educational background or business experience to teach a course on free enterprise," says Ronald S. Spencer, Jr., executive vice president of the Florida Chamber of Commerce.

At a series of student-businessman seminars around the state last year, a number of teachers acknowledged that a fundamental lack of knowledge about our economic system is a problem in public schools, but they said they lacked the tools to do much about it.

"Such comments from teachers and other educators brought about a real change in our thinking," Mr. Spencer says. "We decided to concentrate our efforts on reaching teachers as well as students in bringing about a better understanding of business."

Businessmen did not wait long to act. They helped establish the Florida Council on Economic Education, which is setting up in colleges and universities centers for economic education. There, teachers can earn credits by learning about the private enterprise system.

Also, teachers and students are invited to business establishments where they are informed about such things as profits, costs of doing business, and the role of small investors.

Meanwhile, businessmen have helped write a new state law which requires that studies about private enterprise and a consumer education program be incorporated in the curricula of public elementary schools and high schools.

Florida county school boards have begun setting up courses in conformance with the law. Under the law, the state superintendent of education is required to report to the legislature what steps have been taken to encourage instruction on the private enterprise system and on such consumer activities as banking, applying for credit, and the purchase or rental of homes.

"We have found in the case of students that they are not necessarily antibusiness," Mr. Spencer says. "They simply are not receiving knowledge for or against our economic system. And there is no reluctance on the part of teachers. All they need is our help, and we are giving them that help. •

Our Oldest Industry Hunts Earliest Bottles

A search is on for the oldest glass bottles produced in America.

The Glass Container Manufacturers Institute, of New York, representing the $2.5 billion-a-year U.S. glass industry, is offering a free trip to Washington to owners of the six oldest bottles.

As part of the nation's Bicentennial celebration, the winning entries will be included in the Americana Collection of Glass at the Smithsonian Folk Life Festival in Washington next summer.

The idea is to demonstrate the significant role that the glass industry, America's oldest, has played in the development of our country. The industry was launched in 1608 in Jamestown, when early Virginia colonists produced window panes and glass containers for England.

Before long, the industry had begun turning out bottles in volume, mostly for whisky. Patent medicines soon became popular in the colonies, and bottle making became a sizable enterprise. In the 1850's, plate glass for mirrors, showcases, and other uses requiring high-quality sheet glass established glass manufacturing as a major industry. The screw-top mason jar for home preserves came on the scene in 1880.

Kenneth M. Wilson, of the Henry Ford Museum, with bottles that will be in the Smithsonian Folk Life Festival.

Old bottles now rank with stamps and coins as America's most popular collection objects for hobbyists.

Probably the nation's foremost bottle collector is 85-year-old Charles Gardner, of New London, Conn., a retired moving and storage company executive. He has amassed 4,500 rare and antique bottles which are worth in the neighborhood of a million dollars.

Mr. Gardner started his hobby in 1929 with a bottle he bought for $2.50. The most valuable item in his collection is a set of five J.P. Foster flasks, made by the superintendent of the 19th century Pitkin glassworks in Pennsylvania. Each bottle is worth more than $10,000.

Twelve years ago, Mr. Gardner was running out of home space for his collection so he built a two-story gallery addition to his house.

"We had gotten too cramped for hospitality," he explains. "Many collectors would come a long way to visit, and stay late talking, and the wife would say: 'Stay over with us.' When all the bedrooms got filled with bottles, we needed the gallery." •

A BICENTENNIAL SALUTE TO AMERICAN CITIES:

PORTLAND

Managing Growth for Best Results

COMICS PLAYING the show circuit in the Pacific Northwest used to get laughs with a story about two Portland businessmen who meet on the street.

"What are you going to do this summer?" asks one.

"If it falls on a Saturday, I'm going to play golf," is the reply.

Businessmen in Oregon's biggest city still chuckle at this. Quite a few are not unhappy about gibes at Portland's climate—gibes that center on rainfall as well as on a blending of the seasons.

"Some people think all those old stories about how it rains all the time here are one reason we haven't had the population booms of California or Seattle," says Robert H.

PHOTOGRAPHS BY
GENE DANIELS—BLACK STAR

Spectacular rose gardens are a hallmark of the city, and a rose festival each year attracts thousands of visitors. There are few residences without a variety of roses growing in profusion.

Ships from all over the world sail up the Columbia River to make Portland a major seaport 110 miles from the ocean. Millions of tons of grain, fruit, forest products, and manufactured goods flow out of four huge marine terminals.

Portland is distinctive for ornamental fountains such as this one at the Civic Auditorium. The downtown is dotted with another kind of fountain, too—drinking fountains donated by long-ago timber baron Simon Benson. They were a nonalcoholic means of slaking thirsts of hard-drinking loggers on a Sunday morn.

Hazen, president of the Benjamin Franklin Federal Savings and Loan Association. "And since we haven't had population booms, we haven't had population busts."

Actually, residents of the Portland area—a city of 380,000 within a four-county metropolitan region of 1,071,500—are quick to defend their climate.

41 inches in 150 days

It does rain in Portland. The average rainfall is about 41 inches a year. Portlanders point out that's about the same as the rainfall in Houston, or Cincinnati, or Boston. And Portland's rain is spread over much of the year, falling on an average of 150 days. At the same time, there's hardly ever a heat wave or hard freeze. Temperatures average 65.3 degrees in the summer and 42.8 in the winter.

Portland's climate is responsible for one of the city's hallmarks, roses, and for spectacular gardens and parks. There are 5,000 acres of parks, including the only designated wilderness area within a city's boundaries in the nation.

The climate is partly responsible for the city's economic well-being, too. Portland is in a region rich in agriculture and timber.

Also important, of course, is the city's location. It is in a natural break in the Cascade mountain chain.

A deep port, deep inland

The city, at the junction of the Columbia and Willamette rivers, is an ideal deep-water port. One hundred ten miles from the Pacific, it is the hub of water transportation for the riches of the Oregon country explored by Meriwether Lewis and William Clark. It is a vast temporary repository, originally for furs and gold as well as timber, now for grain, fruits, vegetables, wood products, and manufactured goods, all destined for export to other states and other lands.

Almost from the time Asa Lovejoy and William Overton parked their canoe at an open space on the Willamette in 1844 and staked out a claim for a town site, Portland has been a center of commerce. Its early history was as heavily flavored by rapscallions as were the histories of many frontier towns of the old West. Portland's, however, was tinged with the primness and industriousness of New England, whence many early Portlanders came.

"You'd have to say Portland is and always will be a commercial city," comments Oliver C. Larson, executive vice president of the Portland Chamber of Commerce. "But you'd also have to remember there are many Portlands. It's a city of neighborhoods, among other things."

It is also a city of many industries.

"When I came here 50 years ago," says Robert C. Notson, who recently retired as publisher of the morning newspaper, the Oregonian, "timber was dominant. Now, Portland's economic base is a thousand businesses."

Environment and economics

The fact that the city has so much small and medium-sized business is one reason Portland fared better than many other cities in the recent recession. It is less dependent on a handful of large employers. This is a matter of pride to Portland residents. Many think the late Oregon Sen. Robert Neuberger might have put it a bit differently when he said: "Portland exists because it takes in other people's washing."

That remark could be misunderstood, like another made more recently by former Gov. Tom McCall. "Come visit us, but don't stay permanently," he was quoted as saying in a speech about population growth.

Glenn L. Jackson, chairman of the executive committee of the Pacific Power & Light Co., comments: "What Tom was saying is that you have to have a balance between environment and population and economics."

Most people in Portland believe in this balance. The city wants industry, but it also wants to protect the way of life it has.

"What we want," says Mr. Jackson, "is manageable growth."

The individual is king

This is a theme you hear again and again in Portland, from businessmen, educators, workers.

Another equally strong feeling about Portland is that it is a city where individualism still is paramount.

Dr. Harry Lane, an early-day mayor, was an exponent of taking matters into your own hands when that seems necessary. He felt one company was a bit slow in removing some sluice boxes from park property, so he took an ax and went out and personally chopped up the sluice boxes.

There are still times when citizens are moved to a bit of rather direct action. A more common practice now is to discuss every issue thoroughly.

"We always talk things over," says William J. Moshofsky, a vice president of Georgia-Pacific Corp. "Perhaps that's one reason we settle problems before they get out of hand."

Portland, says a newcomer, "has a mania for town meetings."

That it has. Every week for most of the year, at The Benson Hotel, there is a town meeting-type luncheon sponsored by the chamber of commerce. It's a no-reservation-needed affair, where speakers discuss issues ranging from land use to downtown redevelopment.

Scores of neighborhood associations debate close-to-home problems, and there is wide interest in City Council meetings.

Openness and participation in government have long been standard in Portland.

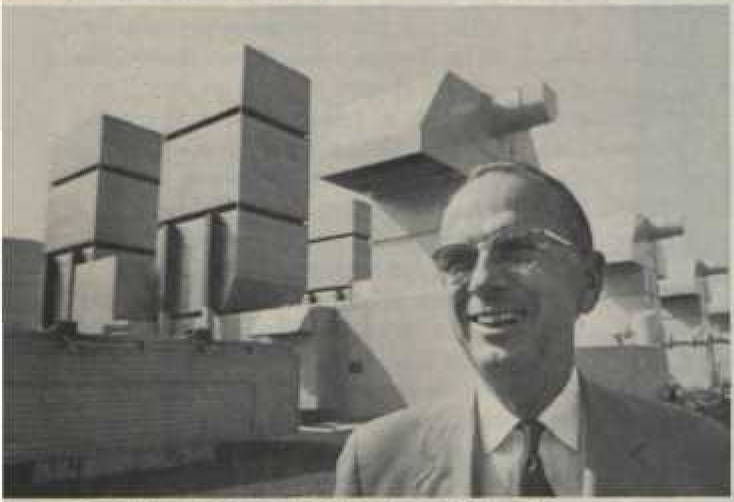
Businessmen participate

"This is one city where businessmen still participate in civic affairs," says Pacific Power's Mr. Jackson. E. Dean Anderson, a vice president of Portland State University, adds another dimension to this: "Portland is a big town, physically. But it is still small enough so you can see, meet, and talk to the decision-makers."

Portland's population—and importance—took a long leap in 1905 when the city sponsored a centennial celebration of the Lewis and Clark expedition. Another boom came during World War II, when shipbuilding mushroomed. The city has grown since then, becoming the distribution center for the Northwest, but it has avoided breast-beating boosterism or a frantic push to grow into gianthood overnight.

"We've been content to grow slow-

Entrepreneurs such as Daniel C. Hanna, 41 (left), and Robert E. Farrell, 47, have found Portland a good place to launch nationwide businesses. Mr. Hanna began Hanna Industries with one automatic car wash in 1954. Mr. Farrell started the Farrell's chain of old-timey ice cream parlors in 1963.



These big turbines cut in at times of peak use of electricity to ensure that there is plenty of power from Portland General Electric Co. President Frank M. Warren is shown at his company's Linnton plant.

One of the new buildings changing Portland's skyline is that of the Benjamin Franklin Federal Savings and Loan Association. President Robert H. Hazen, shown here, is also the new president of the U.S. League of Savings Associations.

PORTLAND: Spectacular Recreational Opportunities *continued*

ly, so we can manage our problems," says Mr. Hazen of Benjamin Franklin Savings and Loan. "We also want to keep our personal enjoyment of living with what we have."

What Portland has is spectacular scenery and recreational opportunities.

"If you don't like fishing, swimming, backpacking, hiking, skiing, boating, hunting—the outdoors—I don't think you'd like living in Portland," says Doug Baker, a respected Oregon Journal columnist.

Most-climbed mountain

Portlanders like the outdoors. One thing a majority of them have in common is a mania for climbing Mt. Hood, that spectacular, nearby mountain with its snow-covered crown. Hood is one of the world's most-climbed mountains, primarily because it has sides that can be negotiated by the very young and the very old, as well as faces that only the expert can scale.

Portlanders also like the six colleges and universities the city has; its importance as a medical center; its street fountains and its lovely, home-dotted hills; its opera, symphony, garden societies, yearly rose festival, parks, and programs developed and encouraged by the Oregon Historical Association.

One research report labels the Portland metropolitan area the nation's best in quality of life.

Portland has the usual quota of big-city worries about inflation, unemployment when the national economy turns sour, and suburban vs. core city shopping.

"What's our biggest problem?" asks Pacific Power & Light's Mr. Jackson. "I suppose it's meeting the center city challenge."

The chamber's Mr. Larson agrees: "It's keeping our downtown viable."

Free public transit

One thing Portland did to meet this challenge was to encourage public transit ridership downtown in a very practical way. You can ride free in a fareless downtown area, with the costs subsidized by an employer's payroll tax.

Another thing was to undertake a big downtown mall project, just now under way.

"We've also rediscovered the Wil-

OKAY, AMERICA, YOU'VE HAD YOUR CRY.

You've wrung your hands and gnashed your teeth for a couple of years now. And I'm fully aware of how chaotic the present situation is.

Lest I forget, there'll be a politician or newsman who will gladly stand up and give me the chilling details. On energy. Jobs. Inflation. Stagnation. Crime. You name it.

That makes for one heck of a birthday party.

The point is, America, you can't spend the next two centuries in tears. Sooner or later you're going to have to take a deep breath, grit your teeth and go out there and do something about it.

Well, sure it's scary. But you've been through worse. And what pulled you through was a deep down-in-the-gut faith in yourself and your people.

It was spirit. A sense of "yes we can!" That's what turned you from a handful of ruffians and outcasts into the most powerful country on earth.

Now you've been through a rather humiliating period lately. And it's difficult to remember who you are and what you're really capable of.

True. You'll never be the same. Never.

But what you can be, is up to you. Entirely. Throw up your hands in despair and you will be nothing but a country that despairs. But believe in yourself and you will be the country for whom nothing is impossible.

And what I say to you, America, I say even more intensely to myself. Because strange as it sounds, you depend on me. I may be only one voice in 213 million, but I have a voice. And I'm going to use it. I have enough strength in my hands and brains in my head to make a difference, and by God, I'm going to make that difference.

By setting goals. And achieving them. By setting even higher goals and achieving them as well. And in doing so, I'll spread this sense of confidence to others, who will pass it on to others until the spirit of "yes we can!" literally sweeps your cities and towns.

What I'm really saying, America, is that I'll never believe in you until I learn to believe in myself.

Well, I've had my cry. I'm ready. And I'm starting now.

LP Louisiana-Pacific

If you'd like to get started, we'll send you a YES WE CAN! literature packet, including the Get Involved Checklist and a copy of How To Write A Letter To Washington. Just drop a note to G. R. Griffin, Louisiana-Pacific, 1300 Southwest Fifth Avenue, Portland, Oregon 97201.

YES WE CAN!

Two of Portland's most active civic leaders are Don C. Frisbee (left), chairman of Pacific Power & Light Co., and Glenn L. Jackson, chairman of the company's executive committee. Mr. Jackson is also chairman of the Oregon Transportation Commission.

Timber has always played an important role in Portland's economy. The chief officers of Georgia-Pacific Corp., one of America's biggest forest products companies, are President Robert E. Flowerree (left) and Chairman Robert B. Pamplin.

A model shows off a new swimsuit to Jantzen, Inc., President Robert W. Roth and H.N. Shea, manager of merchandising services. Jantzen, founded in 1910 as the Portland Knitting Co., is one of the world's best-known makers of swimwear and sports apparel.

PORTLAND: The Future Can Be Tremendous *continued*

lamette," says Mr. Hazen. "And there's a lot of movement to redevelop the riverfront."

A glass and concrete sign of the center city's viability is the increasing number of new, multistory buildings which are changing Portland's skyline. Still another sign is the crop of cosmopolitan restaurants which have appeared in the downtown in recent years.

Skirts and puddles

Problems in Portland are a matter of perspective. State Rep. Vera Katz polled her constituents during the depth of the recession. By far the biggest problem, she discovered from the replies, was dogs running loose. Taxes were a distant second.

This was reminiscent of another era in Portland, when one of the more burning issues was whether a lady should raise her skirt in maneuvering over a puddle in the street. The Oregonian editorialized that on a rainy day, a lady should stay at home.

In Portland's economy, timber has always been of importance. Georgia-Pacific Corp. has its headquarters in the city. Crown Zellerbach Corp., Louisiana-Pacific Corp., Boise Cascade Corp., and International Paper Co. have big operations there. Scores of companies making components for the timber industry are booming.

Wide diversification

The city is now also a major electronics center. The biggest manufacturing employer is Tektronix, Inc., with 9,373 employees. Jantzen, Inc., manufacturer of swimwear and sportswear, and Pendleton Woolen Mills make it a garment center.

A listing of some of Portland's top manufacturing employers shows the city's wide industrial diversification: FMC Corp.'s marine and rail equipment division, railroad cars and oil tankers; Esco Corp., steelcasting; Hyster Co., forklift trucks and logging equipment; the institutional food service division of General Foods; Aluminum Co. of America and Reynolds Metals; Freightliner Corp., heavy-duty trucks; GAF Corp., slide viewers and projectors; National Biscuit Co., cookies.

Annual income per household in Portland's metropolitan area—which for statistics purposes includes Clark

County in the state of Washington—is $10,463. Net effective buying income is estimated at $3.5 billion. Total volume of retail sales runs about $2 billion. Wholesale trade in 1972 was estimated at $7.1 billion, and it is higher today, though up-to-date figures are not yet available.

Portland is one of the largest fresh-water ports in the world and the tenth in ship calls in the U.S. The city's 27 miles of waterfront on the Columbia and Willamette are covered with marine terminals and special docks.

Plenty of electricity

The port is expected to figure prominently in Portland's future. So is electric power. The area has an abundance of hydroelectric power, and coal in neighboring states is another power source. A nuclear plant will soon be in operation. None of Portland's electricity is generated with oil.

"We sure are looking to the future," says Mr. Jackson. "We're going to have the power to continue to serve our area needs. We have a tremendous future in building our export trade with Pacific rim countries. And agriculture has a really great potential."

Unless industries are marine-related, the state of Oregon's Economic Development Department is not pushing for them to locate along the Willamette. But it does have some industrial park land for those industries. And it is stockpiling land around the state for future industrial development.

"Certainly, Oregon wants industry," says Economic Development Director Edward J. Whelan, who is just as interested in seeing Portland grow as he is the rest of the state. "We need it and we intend to make it welcome. We simply want industry and our environment to be compatible. I think that's what every place wants."

Mr. Whelan was state president of the AFL-CIO when Gov. McCall tapped him to head the Economic Development Department after making it an independent agency within the state government.

"When I asked him why me," Mr. Whelan recalls, "he said: 'Because

Chief officers of the Portland Chamber of Commerce are President LeRoy B. Staver, retired chairman of the United States National Bank of Oregon, and Executive Vice President Oliver C. Larson. They are shown in front of a work of sculpture at the Georgia-Pacific Corp. headquarters.

Civic participation is a way of life for Portland businessmen. Constantly involved are Harry A. Merlo (at side), chairman of Louisiana-Pacific Corp., and (above) Rudie Wilhelm, Jr., president of Wilhelm Properties, Inc., and Leland H. Johnson (right), president of the First National Bank of Oregon.

PORTLAND: A Willingness to Try New Approaches *continued*

you're the one who's been griping most that we aren't providing the jobs to keep our young people at home.' "

Labor union influence

Mr. Whelan says he wouldn't characterize Portland as a "union town," though it is the most heavily unionized city in the state. "You have some industries, such as timber, that are union-intensive," he says. "But you have a lot of others that aren't.

"Actually, labor and business get along pretty well. They've joined hands in a lot of things. Especially through the Western Environmental Trade Association. This was formed to bring some sense out of environmental regulations and laws."

Mr. Larson of the chamber of commerce describes Oregon as an "experimental state," one which is willing to try new methods or new approaches.

Some people claim that Oregon is an "irritant" to other states because of this.

Portlanders aren't afraid to try anything, and just because it hasn't worked somewhere else doesn't mean it won't work for them.

Banning throwaway bottles, tearing down billboards along highways, or outlawing polyvinyl chloride spray all were torrid subjects of controversy. But to the majority of Oregonians—and Portlanders—they were worth a try.

"What we want to keep doing is what we can do now," says financier Hazen. "And that's shoot a brace of ducks before going to work in the morning, or stop by the Willamette and catch a salmon on the way home from work."

In essence, Portland wants to grow, but not to outgrow what makes living pleasant.

Talk—or action

If someone tries something that will make living less pleasant, there's always a forum to talk things over.

Or, there's direct action. Columnist Baker recently led 400 people wading in a city fountain after the City Council passed an ordinance banning this old Portland tradition.

"Fountains are for fun," he explains. "The council was wrong."

They're still wading in Portland.

END

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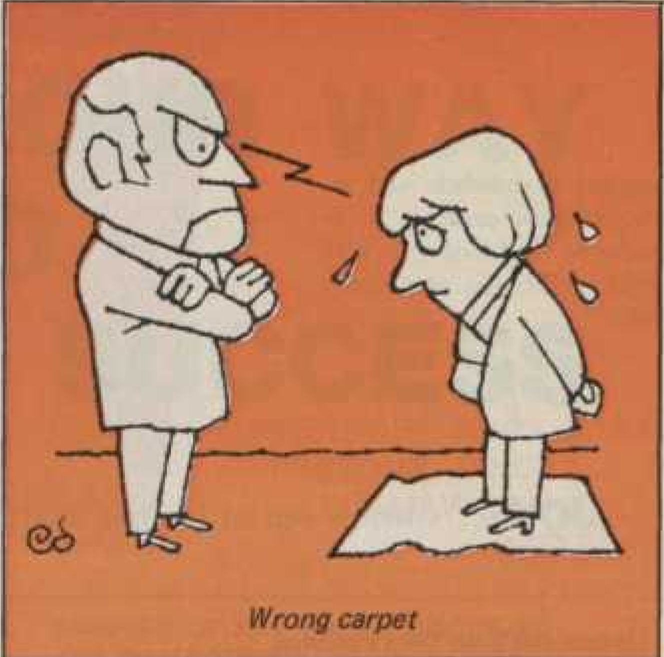
The Right Way to Straighten Out a Young Manager

BY CHARLES C. VANCE

The boss can ruin or lose a junior executive with the wrong type of reprimand. But matters can be handled so that both the firm and the young manager win



Wrong carpet

DRAWINGS: CHARLES A. DUNN

"I ALMOST SUFFOCATED whenever I had to call a junior executive on the carpet," a Chicago manufacturing company president says.

"Now, I've got the carpet treatment down to a science. I found what makes it work. I've saved some excellent careers and kept myself from getting sick."

His secret? Recognizing that a dressing down of a young manager by an older executive is basically a dramatic and deeply penetrating psychological matter requiring a delicate touch.

Clearing corporate vision

"Sure, you want to clear up whatever problem brought him to the carpet in the first place," this president states. "The larger goal is to open up his self-awareness, to get him to match his personal goals with the good of the company.

"The idea is to clear his corporate vision."

Not every senior officer has found a successful way to conduct a closed-door session with an errant junior executive who has committed a corporate sin.

Many lack the competence and finesse to handle the session so smoothly that both the company and the young executive win.

These senior executives generally regard the situation as another time-consuming nuisance that shouldn't have arisen in the first place.

Well-meaning but hard-nosed, they are not prepared emotionally to deal with the young manager on a psychological level. The usual reason is that they lack training and understanding in this area. Thus, they want to get the interview over with as fast as possible and get back to their top priority items.

Where junior managers err

These senior officers often prefer a tyrannizing format with little feedback and no questions or objections from the transgressor.

The main reasons junior executives are called on the carpet are:

To settle abrasive personnel disputes.

To stop profit leaks.

To correct poor work habits.

To find out why orders weren't obeyed.

To unblock the downward flow of command decisions.

To establish authority boundaries.

To lay the blame for a mistake.

"There will always be a need to have counseling sessions with junior executives," a New York recruitment officer says. "It is a rare young man, either filled with enthusiasm and drive or filled with anxiety, who never runs afoul of older executives, company policies or practices, deadlines, or conflicting interpretations of responsibility and authority."

The wrong way to reprove

These sessions generally run to one of five basic patterns:

• Storm at the man, humiliate him, teach him a lesson.

This is a classic, old-fashioned method. It features such stereotyped phrases as: "You don't seem to get the point." Or: "Do you realize we're in business to make a profit?"

This treatment is guaranteed to get the better man out looking for a job the very next day and to keep the lesser man cowed forever.

• Stare the man down, threaten to fire him.

Using this approach, the older executive is likely to fold his arms sternly across his chest while setting his face in a glacial expression. He lays things on the line with such phrases as: "You've got a good job here; why aren't you interested in keeping it?"

This heavy-handed manner tells the junior executive

Fatherly advice ineffectual

You must both win

that he is still alive, but just barely. He may stay with the company, but his effectiveness will be greatly diminished by unnecessarily instilled fear. A good man will leave.

• Show the man he's low on the totem pole by comparing him with the peer competition he fears.

He has to listen to deflating phrases such as:

"Your reports lack the quality and decisiveness that Tom Smith has in his."

"Why don't you watch Harry Brown and see how he handles himself?"

The message the junior executive receives is: "Get a move on, because you're getting lost in the race around here." He may decide to look elsewhere for a job that does not have the same obvious obstacle course.

• Warn him to make changes, but in such a quiet voice that the warning isn't heard.

The older executive tries to be a father figure. He takes the younger man to lunch and after two martinis brings up the subject of transgression. The warning is delivered in a low-keyed, "I-don't-want-to-hurt-your-feelings" manner. The atmosphere is too relaxed and the message too ill-defined for the junior executive to recognize and heed it. He'll make the same mistake, until someone else corrects him more firmly.

• Tell him you want to hear his side of the story, and listen.

Of these stock methods, this is the most enlightened approach. The junior executive hears something like:

"We need comers of your type; we need your enthusiasm and capabilities. You just ran into a small procedural problem. Here is what you can do to straighten things out and avoid such occasions in the future."

The young manager is given solid counseling on the company's policies, procedures, areas of responsibilities, and limitation of authority. He leaves feeling he has had a reasonable day in court.

Has the company really won? The nuts and bolts elements were worked out, but was the underlying emotional problem relieved?

More and more top executives are beginning to realize that disciplining junior executives requires a new approach. Senior managers must be able to cope with a wider range of emotional makeups and lifestyles. These executives realize that the transgression which led to the reprimand is only the tip of the iceberg.

Senior executives now pay more attention to the iceberg itself. The get-rid-of-him-and-get-someone-else cop-out is passé.

"We have too large an investment in our junior executives," one St. Louis president says.

Getting at the root cause

What can you do the next time you want to correct a junior executive without losing him?

First, ask yourself some questions:

What is he charged with? Who made the charge? Why was it made? How can this error be corrected?

Now, do some research to find out what the real problem is. It is likely to be an emotional problem.

What is the junior executive's so-called culprit fear? This is the fear that is primarily responsible for his actions. It goads him, most often subconsciously.

Uncover clues to the fear, and you can prescribe the correct remedy. Some common fears are:

• He will lose his job.

• Someone he hates will get the promotion he wants.

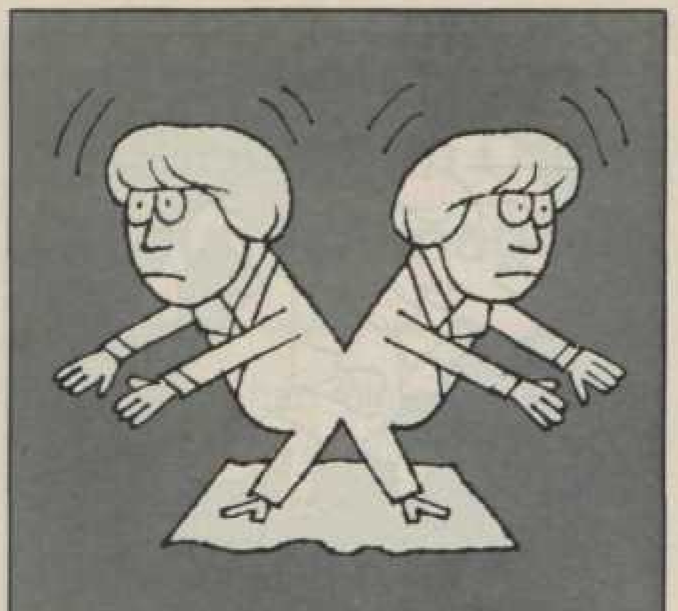
• He will be judged incompetent, or inferior, or foolish.

• He will be criticized for something he didn't do.

• Someone else will get credit for his good work.

• He will be moved from his comfortable and carefully constructed rut.

Overambitious junior executives often cover their



Real problem is emotional

Recognize different life-styles

fear with arrogance, an attitude of "I'm always right," and an abrasive self-centeredness. They abhor those who work with them, resent superiors, and are bursting with prejudice, envy, and frustration.

The underambitious have allowed the business world to hammer them down into timid, complacent, often careless people. They display poor judgment, and they lack confidence. They are apathetic, wary of accepting responsibility, and filled with self-doubt.

Often, they meekly accept heavy workloads which they can't handle. The uncompleted work builds tension, and tension builds desperation. In this desperation, they become preoccupied with job security. Their fear makes them mediocre performers.

What makes him tick

Your research should give you some clues to which fear motivates your junior executive, positively or negatively.

You should be aware of this fear and understand something of the younger man's innermost thoughts. Base your counseling on what he perceives to be his own best interests. Remember, anyone called in by the boss immediately becomes fearful, defensive, tense, and uncertain. You are not dealing with a calm, rational, reasonable person. His fear has already been aroused.

He will see you as a boss with power to hurt him. Instead, you want him to see you as firm, tough-minded, but fair. Everything you say and do must reinforce that image.

Pinpointing responsibility

Emphasize accountability. While he understands responsibility, he might not understand accountability. Tell him he alone is responsible for what he decides and what he does, when functioning according to established procedures and principles. He will see his present error in a different light.

Make him aware of how he must set his own goals, be more in charge of his own life. Point out that he can revitalize himself by improving his skills with further schooling outside working hours or with on-the-job observation and training.

The junior executive will leave your office walking on more solid ground, if not on air. He can see how his interests are enhanced if he accepts your counseling.

The challenge to management

Understanding how to change a man's attitude and behavior when he is called on the carpet is one of the greatest challenges to top management.

Smart senior officers have learned they cannot inflict punishment on young executives who have made mistakes without creating a backlash of hostility. These top managers have learned that the best way to change people is to show them the benefits and advantages they will win, if they change willingly.

All young executives deeply fear failure, rejection, criticism, and being caught doing something wrong. They fear doing or saying anything that could jeopardize their jobs or their chances of getting a pay raise or promotion.

You can show them that a bit of thoughtful self-analysis on their part, and a resultant change, will put them on the high road that leads away from these low fears.

In doing so, you will have strengthened your reputation as being a tough but fair boss. You also will have solved the riddle of how to turn wayward junior executives into top management material for the years ahead. END

MR. VANCE *is a Chicago management consultant who has written extensively on management topics. Reprints of this article are available from Nation's Business. See page 12 for details.*

What the Housing Lag Is Telling You

While other economic barometers show the nation making a rapid recovery from recession, there have been only minor gains in housing construction. Here is an analysis of what that portends

BY ALAN C. ROOT

A quick look at leading economic indicators appears to show that the nation is experiencing a vigorous recovery from the worst recession since the 1930's.

Orders for manufactured goods have trended upward since May, consumer spending has held up since January, inventory liquidation has improved enough for business to begin selling from production, and total employment is increasing. Only housing, traditionally considered the most important indicator, has yet to show significant improvement.

So, many experts are suggesting that housing is no longer an accurate economic barometer. However, housing may be giving us a more realistic view of the current economic environment than the other indicators. A closer examination of the so-called recovery may prove that the recession is much deeper than initially believed and will be more difficult to overcome.

What housing is saying

Since the end of World War II, sharp declines in residential construction have preceded six economic downturns in the United States, the current recession included.

In four of the five prior postwar recessions, the housing industry has been the first major segment of the economy to recover.

If business is truly recovering now, what happened to housing this time?

From a peak rate of 2.5 million housing starts in October, 1972, residential construction plunged to less than 900,000 units in December, 1974.

In September, 1975, starts were at an annual rate of 1.2 million units—a slow, painful improvement.

Mobile home shipments also have been dismal. Between the peak rate of March, 1973, and the low of January, 1975, shipments dropped 83 percent. The recovery this year has been just over 20 percent.

Mr. Root is vice president, corporate planning, of American Standard Inc., a manufacturer of building products, construction equipment, and other items.

Still a good clue?

Are the termites in the economic woodwork only eating away at residential construction and mobile homes? Or are they also attacking the foundations of recovery?

Despite what many experts would like to think, housing still seems to be acting as a leading indicator. It started to decline several months before the official beginning of the current recession. The decline, like the recession itself, was deep. I believe that sustained recovery, when it occurs, will be heralded by an upturn in housing.

New housing construction has a pervasive impact on the economic health of the nation. One reason may be its greater sensitivity to changes in general monetary conditions.

Borrowing is big

No other industry depends as much upon credit for its survival. A home is the largest purchase ever made by almost everyone, and it is purchased mostly on borrowed money.

Interest payments are a significant portion of the cost of home ownership.

Residential mortgage loans account for 30 percent of all private

What the Housing Lag Is Telling You *continued*

business and consumer indebtedness in the United States. At the end of 1974, outstanding residential mortgage debt reached $510 billion.

Builders, like home buyers, could not function without lenders. Construction is by far the most highly leveraged major industry in the country. Construction has an average debt to equity ratio four to five times greater than the average for all manufacturing industries. Only bankers have a higher interest expense as a percentage of net revenues.

For this reason, swings in the cost and availability of money affect builders and home buyers to a greater degree and quicker than they affect other borrowers. This is especially true of multifamily projects. Interest costs exceed the rental returns on large apartment buildings.

Similarly, the high cost of capital will later deter industrialists from making investments in new manufacturing capacity.

Money calls the tune

Short-term building cycles result more from changes in the supply and demand for money than from changes in the supply and demand for houses. When credit is plentiful, builders will individually try to fill every conceivable housing demand. When credit is tight, the roof falls in, regardless of housing needs.

Other industries sell far less costly products for cash or on short-term consumer financing. Those industries are affected more by the fluctuations in supply and demand for their products than by changes in the price and availability of credit.

Now, however, business borrowers are beginning to know what it must feel like to be a builder. Interest rates have soared in recent years. The increased cost of financing inventories, receivables, and capital equipment has greatly restrained business growth.

Foretelling the future

The slowness of the recovery in housing reflects the scarcity of capital resources in the United States. This is why it presages a similarly slow recovery in manufacturing.

Lower levels of housing starts also foretell less need for new shopping

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centers, local office buildings, wholesale distribution points, and ancillary facilities to provide services to occupants of new homes.

Moreover, new dwelling units are being reduced in size and trimmed of extras in an effort to keep the price within the purchasing power of most home buyers. This same trend will subsequently show up in lower sales of central air-conditioning units, kitchen ranges, and a host of other products for the home.

More remodeling

Housing is probably indicative of another shift in American habits. As the stock of existing dwellings rises above the 75 million now standing, the need to add to the stock declines. Remodeling of existing, older homes will increase.

This portends similar developments in the automobile, truck, and aircraft industries. U.S. production will be governed much more by replacement demand than by net new additions. For example, there are already more than 100 million automobiles on the road. Replacement demand will be 350 percent higher than the net new registration demand.

Repair and renovation services will substitute for production.

Too big to ignore

The production of homes in America absorbs more resources from our materials, services, and savings than any other single process. A total contribution of about $100 billion annually is made directly and indirectly to gross national product by the building of 1.5 million dwellings. Some 2.5 million man-years of labor created by on and off-site construction, and in related products and services, goes into construction of 1.5 million homes.

The modest growth in a product this big and important just cannot be ignored.

Housing is still a leading indicator. What it is telling us is twofold:

While we are on the way to recovery, the recession has not yet been licked.

The shortage of capital may restrict physical expansion rates in the economy generally for some time to come.

BUSINESS: A LOOK AHEAD

BY GROVER HEIMAN
Associate Editor

Court Decision Is Bad News for Strikers

A federal court ruling in Hawaii may be a harbinger of important changes in labor relations throughout the U.S.

U.S. District Judge Martin Pence barred state officials from paying unemployment compensation to striking telephone workers.

Coplaintiff with the Hawaiian Telephone Co. in the case was the Chamber of Commerce of the United States, which is involved in a series of lawsuits across the nation challenging the practice of giving welfare, unemployment compensation, and other benefits to workers when they voluntarily walk off the job.

Unlike Hawaii, most states have not granted unemployment compensation to strikers. However, most have granted welfare and food stamps to them.

Judge Pence ruled that striking workers' ability to obtain jobless benefits influences the outcome of a walkout. The strikers' position becomes one of "heads I win, tails you lose," the judge said.

Richard B. Berman, director of the chamber's labor law section, says the business organization will use this legal precedent elsewhere. "The ruling represents a major step in restoring balance to U.S. collective bargaining in industry," he says.

Battle Looms Over Pay Minimum, Workweek, and Overtime Rate

Management is gearing up for a long and bitter battle over moves spearheaded by organized labor to increase overtime pay and the minimum wage, and to reduce the standard workweek.

The AFL-CIO backs H.R. 10130, introduced by Rep. John H. Dent (D.-Pa.), but wants an immediate increase in the minimum wage to $3 an hour. Rep. Dent's bill would raise the minimum to that level by Jan. 1, 1977. The bill also would require employers to pay 2½ times regular pay after eight hours a day and 40 hours a week, and would tie future minimum wage levels to changes in the Consumer Price Index.

Presently, the minimum wage for most covered workers is $2.10, and it is programmed to rise to $2.30 next month. The overtime rate is time and a half after eight hours.

Of particular concern to the hotel and restaurant industries is a section of the Dent bill that would force employers to pay the minimum wage to waiters and other employees who depend on tips for income.

Opponents of this change say that a restaurant, for example, would have to increase prices at least ten percent to cover the additional cost. And, the opponents say, the customer would find the employee still expecting to be tipped at the percentage rates that are prevalent today.

In addition to battling for a modified Dent bill, organized labor is urging Congress to lower the standard workweek to 35 hours. Union leaders argue that this would create more job opportunities. In the recent past, arguments for a shorter workweek have centered on such other claims as a need for more leisure time for employees.

FTC May Crack Down on Farm Cooperatives

If the Federal Trade Commission accepts a report from its staff, agricultural cooperatives can expect more of FTC's attention.

The report concludes that cooperatives have the same rights and responsibilities under antitrust laws as ordinary business corporations. Accordingly, it says, FTC has jurisdiction to proceed against anticompetitive and unfair practices by cooperatives. These practices, the report says, would include conspiring with other cooperatives or businesses to fix prices or restrain trade; or entering into joint ventures, acquisitions, or mergers which substantially lessen competition or tend to create monopolies.

Some cooperatives dominate certain product areas, such as milk and some fruits, vegetables, and nuts, the report says.

It adds that the market power of many of these cooperatives appears to be enhanced by federal and state marketing orders. These orders, the report says, create entry barriers and other restrictions that keep prices above what they would be in freely operating markets.

Small Business Lease Guarantees May Be More Expensive

Businesses that obtain lease guarantees from the Small Business Administration may find the premiums for this type of insurance are going up.

Questionable actuarial practices and poor management are likely to put the lease guarantee program in the red, concludes a report from the General Accounting Office. GAO advises Congress it had better be prepared to appropriate additional funds to cover anticipated losses.

Under the program, SBA helps small businesses lease commercial or industrial space by guaranteeing rent payments to the landlord, either directly or in participation with a private insurer.

The program, established in 1965, is supposed to be self-sustaining. However, GAO says the program is not self-sustaining. Because of defaults, losses on policies issued through fiscal year 1974 could amount to $17 million by 1987, GAO says. SBA's direct guarantees can run from ten to 20 years. The average guarantee now is for 16 years.

GAO recommends changes in management procedures plus new actuarial studies to evaluate the present 2.5 percent ceiling on premiums charged to cover defaults. SBA is not unwilling to make the studies, but says it wants to hear from Congress about them first, because they would be expensive.

SBA officials have used poor judgment in approving guarantees for businesses that do not have reasonable chances to succeed, GAO says.

Nonmetropolitan Areas Are Neck and Neck With Big City Areas

Businesses planning to open or expand in metropolitan areas, because they feel that's where the population growth rate is going to be fastest, may want to reassess the situation in light of a new Census Bureau report.

After a second look, the bureau has reconfirmed that the old pattern of more rapid growth in metropolitan areas than in nonmetropolitan areas is a thing of the past.

At the same time, the bureau has determined that metropolitan areas are not falling behind nonmetropolitan areas in growth rate, as it thought previously, but are neck and neck with them.

From earlier reports, the bureau concluded that metropolitan areas grew only 3.6 percent between 1970 and 1974—a much slower growth rate than they had shown in the previous decade—while nonmetropolitan areas grew five percent.

In March, 1974, the bureau began another study, this time including sections added to existing metro areas after the 1970 census as well as a number of small cities and their environs that have been recognized as metropolitan areas since 1970.

The results have now been disclosed: With the modified statistical rules, both metropolitan areas and nonmetropolitan areas posted four percent growths for the 1970-1974 period.

Independence Sought for Aviation Agency

Through a father and son effort, the Federal Aviation Administration may regain its former independent status in the government.

Created as the Federal Aviation Agency in 1958, it was independent until 1967 when it became part of the new Department of Transportation and was renamed the Federal Aviation Administration.

Now, Sen. Barry Goldwater (R.-Ariz.) and his son, Rep. Barry Goldwater, Jr. (R.-Calif.), have introduced legislation in their respective Capitol Hill chambers that would pull FAA out from under DOT and recreate it as an independent agency complete with its old name.

The Goldwaters say there is evidence that the layers of bureaucracy have slowed the FAA procurement process by as much as a year and a half, which has been costly to business and to the taxpayer. They add that improved air safety would be among benefits of the proposed changes.

Consolidating and Cost-Cutting in Radio Navigation?

American taxpayers could be in for a sizable saving through an envisioned revamping of radio navigation systems operated by the federal government.

Most heavily used among these systems are those that guide aircraft and ships. Others are used for hydrographic surveys, exploratory drilling, underwater cable installation, and mapping.

The Office of Telecommunications Policy in the White House believes the 83 systems could be replaced by 13, cutting costs 40 percent. OTP says this would save $3.5 billion over 20 years.

OTP's estimate comes from a study conducted under contract by Computer Sciences Corp., which found that the many systems now in use overlap substantially.

EDITORIAL

"...Swarms of Officers to harrass our People, and eat out their Substance."

ON JULY 4 OF NEXT YEAR, we will observe the 200th anniversary of the signing of the Declaration of Independence.

In that document, the distinguished representatives of the colonies listed a series of grievances against King George III. Among those grievances: "He has erected a Multitude of new Offices, and sent hither Swarms of Officers to harrass our People, and eat out their Substance."

Those words are being echoed today by America's middle-income taxpayers, who contribute the bulk of the money to finance government, as spending continues to rise at an alarming rate.

The federal budget for fiscal 1977, which begins Oct. 1, 1976, is likely to send federal spending beyond $400 billion for the first time in the nation's history.

It wasn't until fiscal 1961, or 185 years after the Declaration of Independence, that federal spending reached $100 billion. But it took only nine more years to reach $200 billion; and then only five years to hit $300 billion.

The jump to $400 billion is taking only two years.

Projections by the Office of Management and Budget show the possibility of a $1 trillion annual federal budget by the end of this century.

Budget forecasts, however, overlook a vital factor that cannot be measured precisely.

That factor is how long middle-income taxpayers will put up with the triple impact they suffer under present fiscal policies.

The triple impact is felt this way:

1. The government takes from middle-income workers a substantial amount of the money they earn. A recent congressional report points out the family outlay going up the fastest is not for food or energy, but for taxes.

2. The government then uses that tax money to pursue programs that feed inflation, causing further erosion of personal incomes. The average American lost purchasing power last year for the first time in 15 years.

3. Finally, most middle-income families are shut out of many programs they pay for, such as tax-financed college scholarships.

And so, after 200 years, the basic grievance is the same—"Swarms of Officers to harrass our People, and eat out their Substance."

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